

# Investing 101 —what every investor needs to know —what to teach your children

Bob Adams

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## Successful Investing 101—

(What every investor should know—and what to teach your children)

Investing Choices:  
*the good - the better - or the expensive*

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## Who is offering this information?

- Puget Sound Chapter of *Better Investing*
  - Non-profit
  - Volunteer driven
  - Goal: Teach you how to invest
- Who am I?—a volunteer
- [www.betterinvesting.org/puget](http://www.betterinvesting.org/puget)
- [contact@puget.betterinvesting.net](mailto:contact@puget.betterinvesting.net)
- 206-935-0861

## Investing 101--

- 1- General Money Tips
- 2- Investing Vehicles—pros and cons
- 3- Why Expenses are Important
- 4- Basics of Investing
- 5- Company Analysis
- 6- Are you beating the market

## General Investing tips --teach your children

- Equities outperform other investments
  - Bonds
  - Real Estate
  - Precious metals and gems
- Invest for the long term
  - Short term = high risk
  - Long term = low risk
- Save 10% of your paycheck

## General Money Tips --teach your children

Pay off credit cards monthly

- Keep balance below 10% of credit limit
- Don't close credit card accounts – Why?  
(Ok to close if you have a zero balance on all cards)
- Keep older cards

Pay bills on time

- Credit score killers—
  - 1 missed car payment: - 100 points
  - Too many credit applications can damage your score
    - Cell phone – New Credit Card – Utilities

## General Money Tips --teach your children

Slide not in handout

New credit card rules—February 2010

- Prohibited: Free incentives to students for a card application
- Parent or adult must co-sign for any applicant under 21
- Student must show proof of ability to pay debt on their own
  - Limit is 20 percent of the student's income

If you can't make payments—negotiate!  
Counseling help: [www.nfcc.org](http://www.nfcc.org)  
(National Foundation for Credit Counseling)

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## Your Debt—warning signs

### Compare to gross income

- Total monthly payments should be < 36%-48%  
 $\% = \text{Payments} / \text{Gross Income}$
- Debt is excessive if:
  - 1) Monthly car payments and average new charges to credit card exceed 20%
  - 2) Monthly mortgage (including taxes & insurance) exceeds 28%

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## Your Debt—warning signs

- Total owed on home no greater than 80%
  - Includes second mortgage – equity credit line, etc.
- ARM\*: add 6% to introductory rate
  - Calculate monthly payment (maximum payment)
  - Ask Realtor or Broker – OR

www.mortgage101.com/mortgage-calculators  
www.NASDAQ.com click on *Personal Finance*  
[credit card and debt information]

\* Adjustable Rate Mortgage

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## Your Debt— guidelines

- Set aside 8 months living expenses for emergencies
- Don't take out auto loan for more than 36 mo.
  - Can leave you "Upside-Down"
- Loans are Sub-Prime if FICO score less than:
  - 600 for car loan
  - 700 for home mortgage
  - Result: higher interest rates
- Data from Consumer Reports article July 2008

FICO (Fair Isaac Corp.)

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## FICO Score: What's that?

Financially—THE most important 3 digit number

- It impacts your interest rate on loans & insurance premiums
  - Car
  - Home
  - Any loan – any insurance
- One free credit report each year
- Get one from each credit agency  
[www.annualcreditreport.com](http://www.annualcreditreport.com)  
(some banks offer free access to your FICO)

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## FICO Score: What's that?

What's in your score:

Category	Percentage
Payment history	35%
Amounts owed	30%
Length of credit history	15%
New credit	10%
Types of credit used	10%

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## FICO Score: What's that?

A three digit number:

- Range: 300-850
  - >750 receive "Best" credit rates
  - >700 = "Good" credit rates
  - <650 = Sub prime

Estimate your FICO score – [www.bankrate.com](http://www.bankrate.com)  
<http://www.bankrate.com/calculators/credit-score-fico-calculator.aspx>

Free Credit Information Booklet –[www.myfico.com](http://www.myfico.com)  
<http://www.myfico.com/crediteducation/brochures.aspx>

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## FICO Score: What's that?

30 Year Fixed Rate Home Loan

FICO® score	APR [2]	Monthly payment
760-850	4.620%	\$1,542
700-759	4.844%	\$1,582
680-699	5.023%	\$1,615
660-679	5.240%	\$1,655
640-659	5.675%	\$1,736
620-639	6.227%	\$1,843

Location: Washington  
Loan amount: \$300,000  
Recalculate

<http://www.myfico.com>

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## Another thing...

The future of dating?

...Wanna come up and see my FICO score?

- “The least romantic date”
  - Have a “credit report” conversation
  - Print your credit report, bring it to dinner— and share it (Full disclosure)

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## Guidelines...

### Next: Part II Investing Vehicles

## Investing Vehicles

- 1) Investing in managed mutual funds
- 2) Investing in index funds
- 3) Investing in ETFs (Exchange Traded Funds)
- 4) Investing in equities (stocks)

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## What is a Managed Mutual Fund?

- Pooled money from many
- Managed for you
  - Expenses are high >1.5%
- Good diversification
- Available in any type at any broker
  - Over 100,000 funds

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## What is an Index Fund

- Pooled money from many
- Managed for you
  - Expenses are low <.2%
  - Good diversification
- Available in various types at any broker
  - Easily cover all aspects of the market
    - Large companies -- 500 Index Fund Inv
    - Medium companies – Mid-Cap Index Fund Inv
    - Small companies – Small-Cap Index Fund Inv
- Vanguard [www.vanguard.com](http://www.vanguard.com)

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## What is an ETF (Exchange Traded Fund)

- Pooled money from many (a type of mutual fund)
- Managed for you
  - Expenses are low .15 to .2% + trading fee
  - Good diversification
  - Buy & sell shares at any time at a known price
  - High turnover (3,600-6,000%)
- Available in various types at any broker
  - Easily cover all aspects of the market
    - Large companies                      Industries
    - Medium companies                 Foreign and Domestic
    - Small companies

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## What is an Individual Acct.

- Your money held separately from others
- You decide what and when to buy/sell
  - Expenses are low (You control expenses)
- Available through any broker—discount
- What do you buy
  - A “Share” of a company

Next: Pros & Cons of each type

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## Managed Mutual Funds— pros/cons

- Pros:
  - Convenient
  - Easy
  - Automatic investing
- Cons:
  - Under perform the market
  - *Expensive* – 1.5% annual fee average + + +
  - Short term Capital gains taxed at your rate
    - High turnover

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## Managed Mutual Funds

What does “expensive” mean?

- 16 year study by *John Bogle* (Vanguard)
- Investors in Managed Mutual Funds kept **47%** of the cumulative return
- Index Fund investors kept **87%**
- This means **\$10,000** invested in the index fund grew by **\$87,000 vs. \$47,000** in the average actively managed stock mutual fund

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## Managed Mutual Funds

- 12b-1 fees –
  - up to 1% for load funds
  - Up to 0.25% for no-load funds
- Transaction fees not reported
- Taxes not reported

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## Index Funds—pros/cons

- Pros:
  - Convenient
  - Easy
  - Automatic investing
  - Return approximates the market average
  - Very low turnover – Very low capital gains
    - Long term Capital gains taxed at 15%
    - No measurable turnover costs (brokerage fees)
  - Inexpensive – .1% to .18% annual fee
- Cons:
  - Slightly under perform the market average

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## Index Funds—pros/cons

- Not all are created equal—(Class B shares)

Index 500 funds	Expense ratio	w/Load charges
Fidelity Spartan*	0.07%	None
Vanguard Admiral*	0.09%	None
Vanguard Regular	0.18%	None
T. Roe Price	0.35%	None

\* Minimum investment and/or specified holding period

Morgan Stanley	0.64%	1.40%
Wells Fargo	0.64%	1.39%
Evergreen	0.56%	1.31%
J. P. Morgan	0.53%	1.30%

*The Little Book of Common Sense Investing—Bogle p128*

## Percent of active funds underperformed the indices

Fund Category	Benchmark Index	2004 to 2008	1999 to 2003
All Domestic Funds	S&P Composite 1500	66.21	50.76
All Large-Cap Funds	S&P 500	71.90	53.41
All Mid-Cap Funds	S&P MidCap 400	79.06	91.36
All Small-Cap Funds	S&P SmallCap 600	85.45	69.38

www2.standardandpoors.com/spf/pdf/index/SPIVA\_Report\_Year-End\_2008.pdf

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## Index Exchange Traded Fund (ETF)—pros/cons

- Pros:
  - Convenient
  - Easy
  - Automatic investing
  - Return approximates the market average
  - Buy and Sell like regular stocks
  - Somewhat Inexpensive – .15%-.2% plus trading fee
  - Capital gains taxed at 15% if held 18 months
- Cons:
  - Slightly under perform the index average
  - Cost normally higher than an Index Fund

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## Index Exchange Traded Fund (ETF)—pros/cons

- Beware of “Ultra” ETFs
  - leveraged
  - short-term investing (36-60 times turnover)
- “Individual investors...may not be aware of the risks these funds carry. Given their volatility, these funds typically are not suitable for most retail investors.”
 

NASAA (North American Securities Administrators Association)

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## Individual Account (Brokerage account)—pros/cons

- Pros:
  - You maintain control
    - When to buy – when to sell
    - Control Capital Gains
  - Beat the market average
    - (Long term even 1% difference can be a huge sum)
- Cons:
  - Must learn how to invest
    - Learn the language
  - Requires your time

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## Invest in...

- Invest only in the best company
  - History of Sales growth and stability
  - History of Earnings growth and stability
  - History of stable Profit Margins
  - Reasonable Price
  - Reasonable Projected Growth
- (How? – We’ll look at this later)

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## Opening an account

- Managed Mutual Fund
  - Small initial investment (\$100-200)
    - High expenses
- Index Fund –or– ETF
  - Larger initial investment (\$2,000)
    - Low expenses – but high turnover (ETF)
- Individual account
  - Larger initial investment (\$2,000-3,000)
    - Low Expenses
    - IRA very low initial investment

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## Investing Methods...

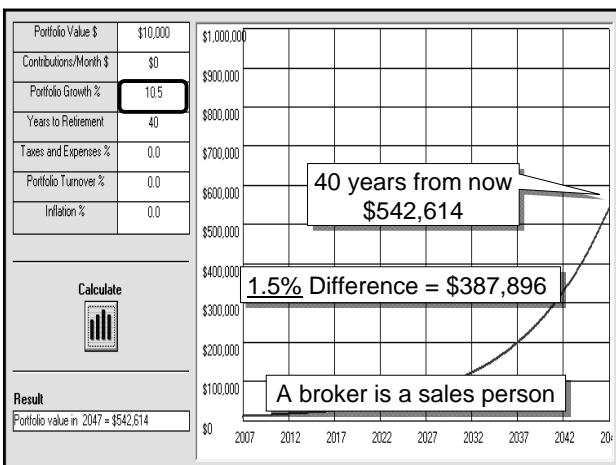
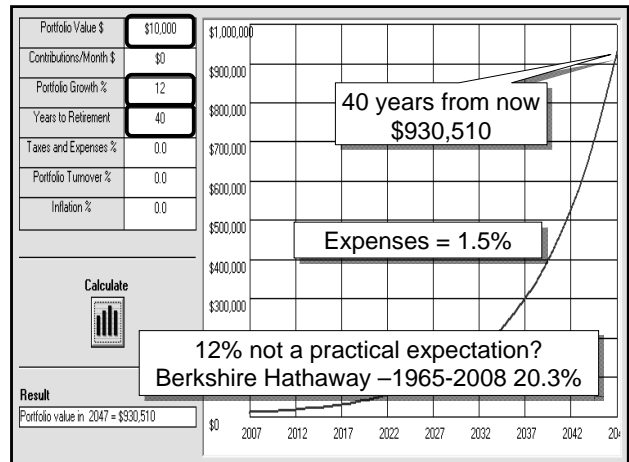
### Next: Part III

## Expenses are Important

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## Expenses are Important

- The difference:
  - Your *broker's* yacht
- OR
  - Your yacht
- Before enrolling in a 401(k) plan
  1. Ask what fees are charged
  2. Ask who pays the fees
  3. Make sure you receive regular status updates



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## But wait...there's more

- Uncle Sam taxes Mutual Fund Capital Gains
  - Each year 100-300% portfolio turnover
  - 2006 – Taxes cost Mutual Fund investors
    - 1.43%\*

12b(1) fees -- .25% minimum – up to 1%

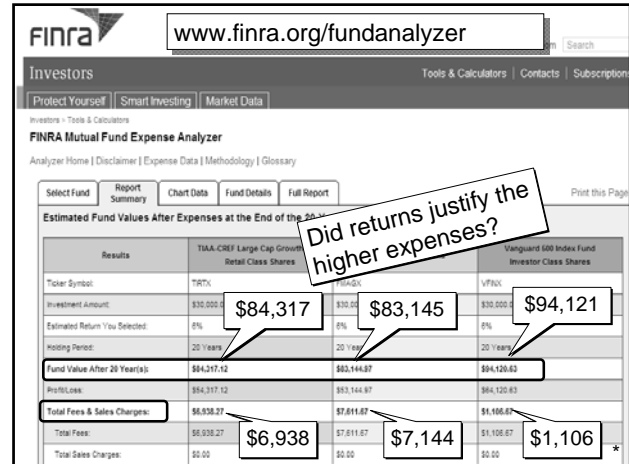
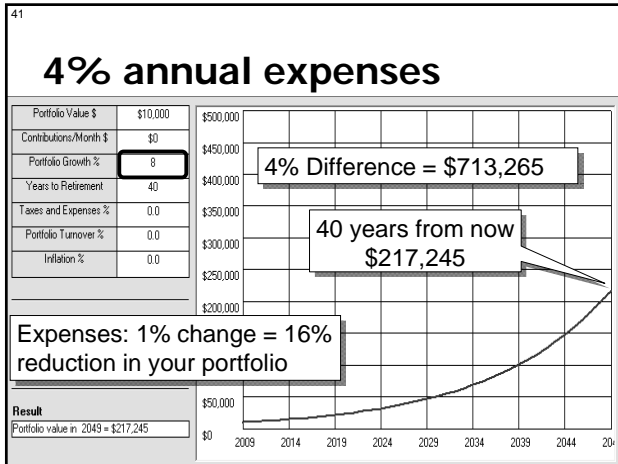
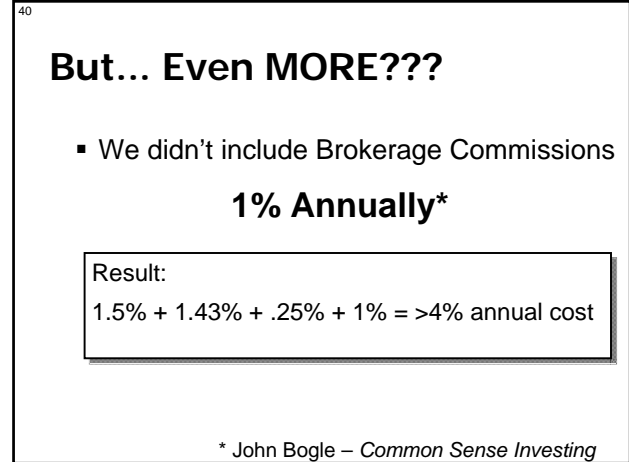
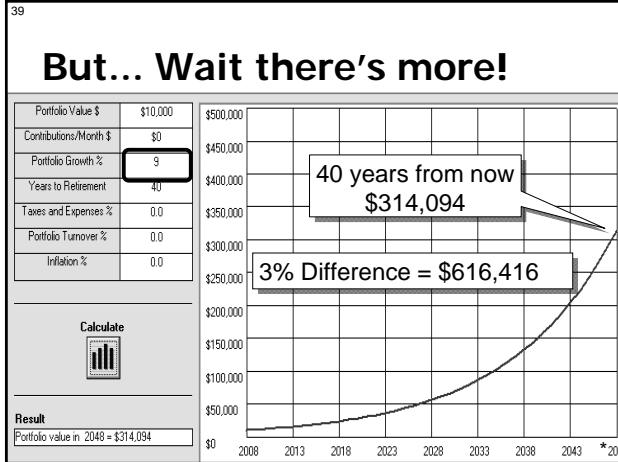
Result:  
1.5% + 1.43% + .25% = >3% annual cost

\* Reported by:

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## Expenses are Important...

Next: Part IV  
Basics of Investing on Your Own

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## So you want to do it yourself? – beat the market

- Patience!
- It's a learning process
- Look for:
  - Local classes
  - Local activities
- www.betterinvesting.org/puget

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## So. . . you want to do it yourself?

- Learn through an Investment Club
- Object:
  - Beat the Market Averages

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## Learn the Power of -- Compounded Growth

- If Earnings grow on top of Earnings –
  - (Normally the greatest source of growth)
- If Dividends grow on top of Dividends –
- If Interest grows on top of Interest –
  - **RESULT:**
    - An ever increasing portfolio value
- Allow GROWTH and TIME to work for you
  - Reinvest – don't spend

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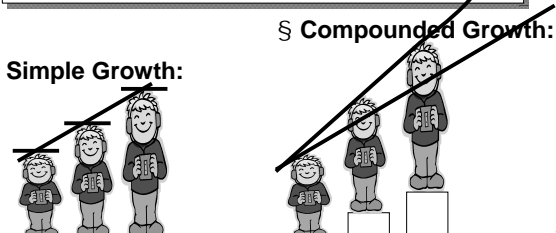
## Compounded Growth: a simple illustration

- How does it work?

Parents sometimes measure a child's growth with a mark on the wall or door frame

§ **Compounded Growth:**

- Simple Growth:



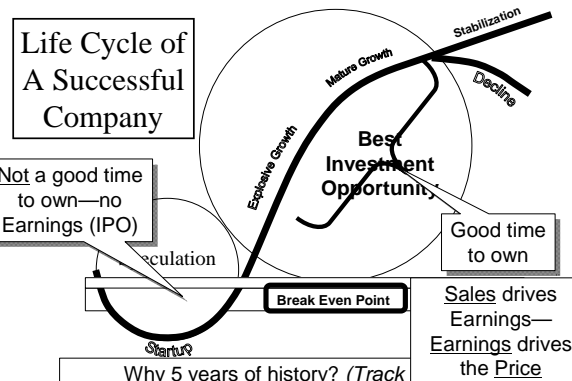
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## What is a High Quality Growth Company

- Growth Companies
  - Consistent sales growth
  - Consistent earnings growth
    - Track record of consistent growth (5 years min.)
- High Quality Companies
  - Good management (Consistent growth)
    - Maintained or improved profit margin
    - Invest company assets effectively

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## Life Cycle of A Successful Company



Not a good time to own—no Earnings (IPO)

Good time to own

Sales drives Earnings— Earnings drives the Price

Why 5 years of history? (Track Many companies never reach profitability)

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## Diversify

- Diversification reduces the risk
  - (Don't put all your eggs in one basket)
  - Invest in different industries
  - Invest in different sized companies
  - Invest in the U.S. and outside the U.S. (ADR)
  - Invest outside your own company too
  - Invest in a home

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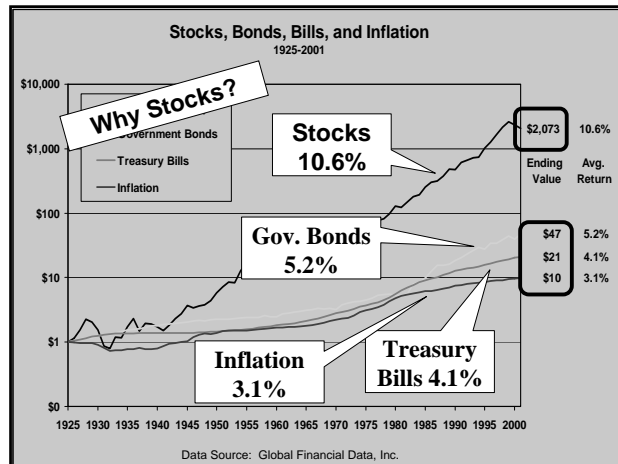
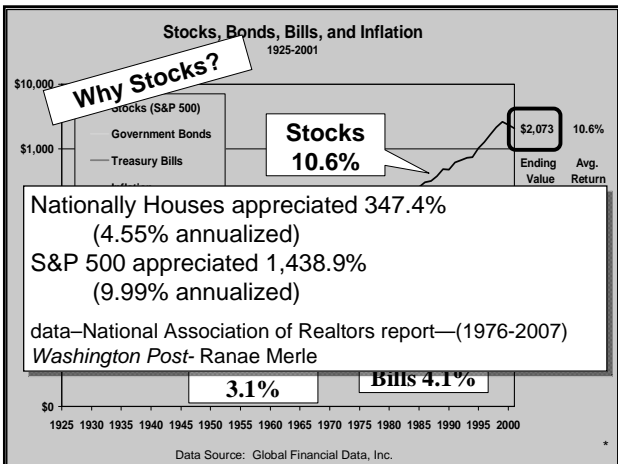
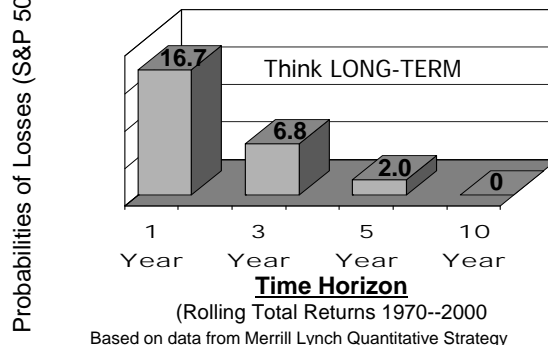
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## Is the Stock Market Safe?

- “Risk” means different things to different people
- Short-term investment “risk” is high –
  - Price swings represent “risk”
- Long-term “risk” is low
  - Staying the course irons out the price swings

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## The longer the time period the less the risk



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## Basics...

### Next: Part V Company Analysis

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## Company Analysis

- Annual Report Analysis form (free)
- Quick Analysis form (free)
  - Kaush Meisheri
- [www.bob-adams.net](http://www.bob-adams.net)

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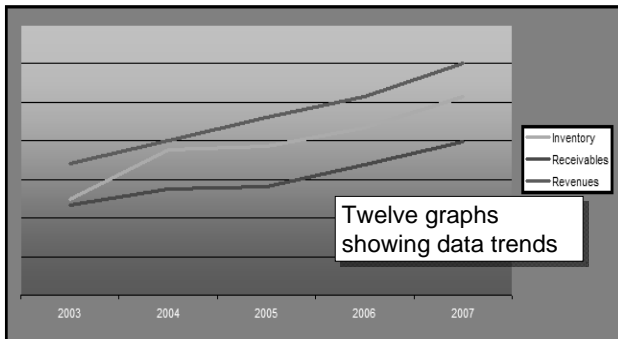
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ANALYZING THE ANNUAL REPORT		Intel Corp.	version 3.28
<p><b>Account Receivable</b> Change: <b>34%</b> OK, Right direction (Decreasing)</p> <p>Step: waiting for payment this year? <b>17</b> Accounts Receivable are decreasing but inventories are increasing - why? <b>17</b></p> <p>Step: waiting for payment prior year? <b>17</b> Accounts Receivable are decreasing but inventories are increasing - why? <b>17</b></p>			
<p><b>Inventories</b> Change: <b>18%</b> OK, Wrong direction (Increasing)</p> <p>Step: waiting for payment this year? <b>17</b> Inventories are increasing faster than Cost of Sales (Cost of Sales is decreasing)</p> <p>Step: waiting for payment prior year? <b>17</b> Inventories are increasing faster than Cost of Sales (Cost of Sales is decreasing)</p>			
<p><b>Plant &amp; Equipment</b> Change: <b>4%</b> OK - (Sales should grow as fast)</p> <p>Step: waiting for payment this year? <b>17</b> Plant &amp; Equipment are increasing as fast as Sales</p> <p>Step: waiting for payment prior year? <b>17</b> Plant &amp; Equipment are increasing as fast as Sales</p>			
<p><b>Long Term Debt</b> Change: <b>3%</b> Right direction (Decreasing)</p> <p>Step: waiting for payment this year? <b>17</b> Long Term Debt is decreasing</p> <p>Step: waiting for payment prior year? <b>17</b> Long Term Debt is decreasing</p>			
<p><b>LT Debt to Equity Ratio</b> Change: <b>4%</b> OK - (Debt to Equity is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Long Term Debt to Equity Ratio is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Long Term Debt to Equity Ratio is OK</p>			
<p><b>Total Interest Coverage</b> Change: <b>10%</b> OK - (Large numbers aren't as good as small)</p> <p>Step: waiting for payment this year? <b>17</b> Total Interest Coverage is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Total Interest Coverage is OK</p>			
<p><b>Operating Profit Margin</b> Change: <b>1%</b> OK - (Operating Profit is increasing)</p> <p>Step: waiting for payment this year? <b>17</b> Operating Profit Margin is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Operating Profit Margin is OK</p>			
<p><b>Cash Flow Growth</b> Change: <b>12%</b> OK - (Cash flow should increase at the same rate as Sales - or greater)</p> <p>Step: waiting for payment this year? <b>17</b> Cash Flow Growth is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Cash Flow Growth is OK</p>			
<p><b>Most recent Operating Dividend to Cash from Operations ratio</b> Change: <b>2.8</b> OK - (Ratio is probably sufficient - the dividend is not likely to be cut)</p> <p>Step: waiting for payment this year? <b>17</b> Most recent Operating Dividend to Cash from Operations ratio is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Most recent Operating Dividend to Cash from Operations ratio is OK</p>			
<p><b>Free Cash Flow Margin</b> Change: <b>7%</b> OK - (Free Cash Flow Margin is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Free Cash Flow Margin is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Free Cash Flow Margin is OK</p>			
<p><b>Return on Free Cash Flow - compare to yield on 10 yr. bond</b> Change: <b>3%</b> OK - (Return on Free Cash Flow is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Return on Free Cash Flow - compare to yield on 10 yr. bond is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Return on Free Cash Flow - compare to yield on 10 yr. bond is OK</p>			
<p><b>Net Earnings to Receivables Ratio</b> Change: <b>1%</b> OK - (Net Earnings to Receivables Ratio is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Net Earnings to Receivables Ratio is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Net Earnings to Receivables Ratio is OK</p>			
<p><b>Earnings Yield</b> Change: <b>6%</b> OK - (Earnings Yield is acceptable)</p> <p>Step: waiting for payment this year? <b>17</b> Earnings Yield is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Earnings Yield is OK</p>			

Automatic data form - with added features

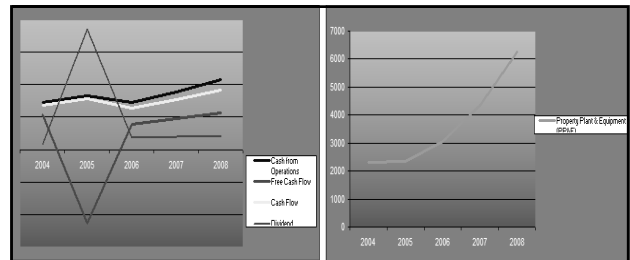
FINANCIAL RATIOS		Intel Corp.	version 3.28
<p><b>Return on Assets (ROA)</b> Change: <b>1%</b> OK - (Return on Assets is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Return on Assets is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Return on Assets is OK</p>			
<p><b>Return on Equity (ROE)</b> Change: <b>1%</b> OK - (Return on Equity is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Return on Equity is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Return on Equity is OK</p>			
<p><b>Operating Margin</b> Change: <b>1%</b> OK - (Operating Margin is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Operating Margin is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Operating Margin is OK</p>			
<p><b>Current Ratio</b> Change: <b>2.8</b> OK - (Current Ratio is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Current Ratio is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Current Ratio is OK</p>			
<p><b>Debt to Equity Ratio</b> Change: <b>4%</b> OK - (Debt to Equity is OK)</p> <p>Step: waiting for payment this year? <b>17</b> Debt to Equity Ratio is OK</p> <p>Step: waiting for payment prior year? <b>17</b> Debt to Equity Ratio is OK</p>			
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COMPETITORS TO	Intel Corp.	Peer	10Y	Industry
Operating Profit Margin	1%	1%	1%	1%
Free Cash Flow Margin	7%	7%	7%	7%
Operating Profit Margin	1%	1%	1%	1%
Free Cash Flow Margin	7%	7%	7%	7%
Operating Profit Margin	1%	1%	1%	1%
Free Cash Flow Margin	7%	7%	7%	7%



Twelve graphs showing data trends

If Receivables is going up, customers aren't paying their bills. But if Revenue is also going up Receivables will likely go up also—and Inventories as well. If either goes up faster than Revenues however, that's a danger signal. All three are expected to more or less act in concert.



Ratio Analyzer - StockCentral.com (Derived from this spreadsheet)

- 1) Cash Flow is a measure of financial performance calculated as sign. Some believe that Wall Street focuses myopically on earnings rather than cash flow. For this reason, some investors believe that Free Cash Flow gives a much clearer view of the ability to generate cash—and thus profits.
- 2) Free Cash Flow is what is left over after all bills have been paid. It can be used by management for any purpose—buy back shares, pay a dividend, invest in another company, acquire a company, etc. It is important to note that negative free cash flow is not bad in itself. If free cash flow is negative, it could be a sign that a company is making large investments. If these investments earn a high return, the strategy has the potential to pay off in the long run. Observe the PPE&E chart below to see the relationship between PPE&E and Free Cashflow.
- 3) Is there sufficient Cash Flow to pay the Dividend, if one is paid? Compare Dividends to Cash from Operations. If the Dividend is higher or trending higher than Cash Flow, the company may be paying the Dividend from reserves—a danger signal that the dividend might be cut or eliminated in the future.

Quick Analysis -- a form created by Karsh Meisheri	
Cisco Systems Inc: Company Report	
Capitalization	LargeCap
Ticker Symbol	CSCO
Last fiscal year reported	2008
SALES GROWTH HISTORY:	
1 point each for any of the past 10 years in which sales increased (max 10 pts)	
SALES GROWTH RATE:	
Doubling of sales in 5 years or less, 10 pts; subtract 2 points for each additional year	
EARNINGS PER SHARE (EPS) GROWTH HISTORY:	
1 point each for any of the past 10 years in which EPS increased (max 10 pts)	
EPS GROWTH RATE:	
Doubling of EPS in 5 years or less, 10 pts; subtract 2 points for each additional year	
DIVIDEND GROWTH HISTORY:	
1 point each for any of the past 5 years in which dividend increased (max 5 pts)	
3-YEAR OPERATING MARGIN (OM) RANGE:	24% 15
10% or less: 5 pts 11-14%: 8 pts	
15 to 19%: 12 pts 20% or more: 15 pts	
[Net Income / Sales]	
3-YEAR RETURN ON EQUITY (ROE) RANGE:	23% 15
10% or less: 5 pts 11-14%: 8 pts	
15 to 19%: 12 pts 20% or more: 15 pts	
[Net Income / Shareholder Equity]	

Kaush Meisheri

3-YEAR RETURN ON EQUITY (ROE) RANGE:	23% 15
10% or less: 5 pts 11-14%: 8 pts	
15 to 19%: 12 pts 20% or more: 15 pts	
[Net Income / Shareholder Equity]	
LONG-TERM DEBT AS % OF SHARE EQUITY:	0% 5
60% or more: 0 pts 30-60%: 3 pts less than 30%: 5 pts	
[Long Term Debt / Shareholder Equity]	
CURRENT ASSETS TO CURRENT LIABILITY RATIO:	2.6 5
Less than 1: 0 pts 1-2: 3 pts more than 2: 5 pts	
[Current Assets / Current Liabilities]	
FUTURE EPS GROWTH PROJECTIONS:	16.6% 12
10% or less: 5 pts 11-14%: 8 pts	
15 to 19%: 12 pts 20% or more: 15 pts	
TOTAL SCORE	89
80-100: Superior 60-79: Average Less than 60: below average	
(If Dividend is not paid: 75-100 rated as Superior)	
PEG RATIO (5 year projection)	1.32
Current Price: 17.08	12 Month Target Price: 19.28
The Projected 12 Month Target Price represents an estimated increase of: 13%	
A Superior rating and a PEG ratio of less than 1.5 makes this company worth a closer look	
The PEG ratio helps determine if the current price is reasonable. A ratio of 1 or less is very good, but if the TOTAL SCORE is Superior, and the PEG is greater than 1 but less than 1.5—and the market is bullish—a ratio of up to 1.5 may be acceptable. Anything over 1.5 means you are overpaying for the company.	

# Investing 101 —what every investor needs to know –what to teach your children

Bob Adams

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Quick Analysis -- a form created by Karsh Meisheri	
Microsoft Corp: Company Report	
Capitalization	LargeCap
2009	Last fiscal year reported
Find Ticker Symbol	
SALES GROWTH HISTORY:	8
1 point each for any of the past 10 years in which sales increased (max 10 pts)	
SALES GROWTH RATE:	6
Doubling of sales in 5 years or less, 10 pts; subtract 2 points for each additional year	
EARNINGS PER SHARE (EPS) GROWTH HISTORY:	7
1 point each for any of the past 10 years in which EPS increased (max 10 pts)	
EPS GROWTH RATE:	10
Doubling of EPS in 5 years or less, 10 pts; subtract 2 points for each additional year	
DIVIDEND GROWTH HISTORY:	4
1 point each for any of the past 5 years in which dividend increased (max 5 pts.)	

TOTAL SCORE	
10% or less: 5 pts	11-14%: 8 pts
15 to 19%: 12 pts	20% or more: 15 pts
80	
80-100: Superior	
60-79: Average	
Less than 60: below average	
(If Dividend is not paid: 75-100 rated as Superior)	
Superior	
PEG RATIO (5 year projection)	
This company is slightly over priced	
1.48	
Current Price: 25.05	12 Month Target Price: 26.78
The Projected 12 Month Target Price represents an estimated increase c7%	
A Superior rating and a PEG ratio of less than 1.5 makes this company worth a closer look	
The PEG ratio helps determine if the current price is reasonable. A ratio of 1 or less is very good, but if the TOTAL SCORE is Superior, and the PEG is greater than 1 but less than 1.5—and the market is bullish—a ratio of up to 1.5 may be acceptable. Anything over 1.5 means you are overpaying for the company.	

## Research— Using Your Library

- Morningstar
  - Company & Mutual Fund research
- Valueline
  - Company research

The screenshot shows the King County Library System website. At the top, there is a search bar and navigation tabs for Home, Using the Library, Books & Reading, Research & Homework, Programs & Classes, Events, and About KCLS. A banner message states: "All KCLS Libraries will be closed on Veterans Day, Wednesday, Nov. 11." Below the navigation, the "Research & Homework" section is active, featuring a "Study Zone" service that provides access to online study tutors for grades K-12. Other resources listed include homework help, databases, and test prep resources.

The screenshot shows the Morningstar website interface. It includes a "Turn to us. The choices will surprise you." slogan and a "LOG IN TO YOUR ACCOUNT" section with a "DON'T HAVE AN ACCOUNT? GET A LIBRARY CARD" link. A search bar is present with the text "Search the catalog for books and more". Below the navigation, the "KCLS Database Access" section is highlighted, with a "Welcome to Morningstar" message. It explains that Morningstar is a licensed system available to patrons of the King County Library System and provides instructions on how to access it using a library card number.

The screenshot shows the Morningstar Research Center website. It features a navigation menu with tabs for Home, Stocks, Funds, ETFs, Industries, Portfolio X-Ray, and Help & Education. The main content area is divided into five columns: Stocks, Funds, ETFs, Industries, and Portfolio X-Ray. Each column contains a small chart or table and a "Screen for" button. The "Funds" column shows a table with columns for "4", "7", "6", and "Large", and rows for "1", "1", "4", and "Medium". The "ETFs" column shows a table with columns for "4669" and "2149", and rows for "889" and "889". The "Industries" column shows a table with columns for "Company", "Sector", "Star Rating", "P&G", and "Low's". The "Portfolio X-Ray" column shows a pie chart and a "Get Portfolio Analysis" button. The website footer includes a "User's Agreement" link and a copyright notice for 2009 Morningstar.

# Investing 101 —what every investor needs to know –what to teach your children

Bob Adams

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**Morningstar** INVESTMENT RESEARCH CENTER  
 Provided by King County Library System | Friday, Nov. 6, 2009 | Contact

Home | Stocks | Funds | ETFs | Industries | Portfolio X-Ray | Help & Education

Enter a Ticker or Name  Get Report

**Snapshot**  
**Fidelity Magellan (FMAGX)**  
 See Fund Family Data

**Data Interpreter**  
 Analyst Research  
 Stewardship Grade  
 Morningstar Rating  
 Total Returns  
 Tax Analysis  
 Risk Measures  
 Portfolio  
 Management  
 Fees & Expenses  
 Purchase Info  
 Formatted Report  
 Print

**Performance more** Growth of \$10,000 10-31-09

**Key Stats more**  
 Morningstar Category Large Growth  
 Morningstar Rating ★  
 Morningstar Risk Above Average

This fund earns only 1 star under Morningstar's rating methodology, meaning that compared with other funds in its category, it has historically generated awful returns given the amount of risk it has taken on. Part of the problem in this case is that the fund has been volatile compared with its peers.

**Trailing Returns %** 11-03-09

	YTD	3 year	5 year
Fund	32.74	-6.18	-1.20
% Rank in Cat	24	83	86

This fund has a very low expense ratio for a no-load offering in its category. Expenses are a big factor in long-term, relative performance, and funds with lower expenses generally outperform those with higher expenses.

**Manager** Harry Lange  
**Manager Start Date** 10-31-05

% Rank in Cat 24 83 86

This fund's record is very poor, with its five-year returns ranking among the very worst in its category. We focus on five-year returns because longer records have greater predictive value than shorter records. There may be a good explanation for this fund's poor performance, but it will need to be a good one to consider buying into this offering.

This fund has a very low expense ratio for a no-load offering in its category. Expenses are a big factor in long-term, relative performance, and funds with lower expenses generally outperform those with higher expenses.

**Manager** Harry Lange  
**Manager Start Date** 10-31-05

This fund's manager has been at its helm for 4 years. When evaluating the fund's long-term performance record you may want to bear in mind that not all of that record is the product of the current manager's abilities.

**Mutual Fund**

**Analyst Note** 08-18-2009 | by Rick Hanna **Stock**

Hewlett-Packard's **HPQ** third-quarter results were a mixed bag, but they were consistent with our estimates and we are maintaining our fair value estimate. Total revenue growth before unfavorable currency exchange rates was 4% versus last year, exclusively due to incremental revenues from the EDS acquisition. Every business unit except services reported steep double-digit sales declines versus last year, but there are some pockets of slight improvement relative to the previous dismal quarter. Particularly encouraging was the 14% improvement versus last quarter in Intel-based **INTC** x86 servers. Overall enterprise hardware spending increased 6% sequentially, which doesn't mean the floodgates are open on new demand, but it may indicate that the worst is over. Sales of personal computers did not fare as well, increasing only 3% sequentially as revenues continue to be deflated by falling average selling prices. We also remain concerned about continued weakness in the company's software and printing businesses, which declined both versus last year and last quarter.

**Bulls Say**

- HP is the largest technology infrastructure company in the world in terms of revenue and is using its global scale to lower costs.
- Cost-cutting has made HP more competitive in each of its business segments. It is now in a better position to capture additional market share.

**Bears Say**

- The printing business will become increasingly competitive as the market matures and the product lines blur between printers and multi-function devices.
- The trend toward more industry-standard architectures for servers and workstations will further commodify and bring more price pressures to the market.

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**Basics...**

**Finally: Part VI  
 Beating the Market**

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**Did You Beat the Market**

- It's **Imperative** you know!
- Three tools help:
  - Two spreadsheets – companies
  - Morningstar – Mutual Funds

# Investing 101 —what every investor needs to know –what to teach your children

Bob Adams

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Portfolio name: **I Gotbucks** Version 2.0.20

Year of Analysis: **7-Jan-09**

Statement date: **31-Aug-09** **\$ 25,214** ←Starting Balance - Jan 1st

Enter the closing date shown on the broker statement used for this months analysis

Month: **31-Aug-09** **\$ 22,121** ←Value this month

Month	Paid In	Withdrawal	
Jan-09	100		100.00
Feb-09	100		100.00
Mar-09	100		100.00
Apr-09	0	2,000.00	(2,000.00)
May-09			0.00
Jun-09	100		100.00
Jul-09	100		100.00
Aug-09	100		100.00
Sep-09			0.00
Oct-09			0.00
Nov-09			0.00
Dec-09			0.00

Annualized Return for the Portfolio: **-7.6%**

Super - You outperformed the market average

Market Index	Dec 31st prior year	Dec 31st current year	Return
DOW Jones Indust	13,264	8,776	-33.8%
S&P 500	1,468	903	-38.5%
Market Average			-36.2%

Historical DOW Values | Historical S&P 500 Values

Return to Analysis page

Portfolio name: **I Gotbucks** Version 2.0.20

Year of Analysis: **7-Jan-09**

Statement date: **31-Aug-09** **\$ 25,214** ←Starting Balance - Jan 1st

Enter the closing date shown on the broker statement used for this months analysis

Month: **31-Aug-09** **\$ 22,121** ←Value this month

Enter the balance at the beginning of the year: **\$ 22,121**

Enter the balance at the end of each month or end of the year: (Enter the balance at the end of each month if you want to see how you're doing each month.)

Enter any amounts paid into or withdrawn from the account each month. If none, make no entry or enter a zero.

Month	Paid In	Withdrawal	
Jan-09	100		100.00
Feb-09	100		100.00
Mar-09	100		100.00
Apr-09	0	2,000.00	(2,000.00)
May-09			0.00
Jun-09	100		100.00
Jul-09	100		100.00
Aug-09	100		100.00
Sep-09			0.00
Oct-09			0.00
Nov-09			0.00
Dec-09			0.00

Annualized Return for the Portfolio: **-7.6%**

Super - You outperformed the market average

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S&P 500	1,468	903	-38.5%
Market Average			-36.2%

Historical DOW Values | Historical S&P 500 Values

Portfolio name: **I Gotbucks** Version 2.0.20

February 8, 2009

Current Portfolio Report - Annualized

Company Name	Stock Symbol	Date of Purchase	Number of Shares Owned	Cost Per Share	Total Cost	Current Price	Current Value	Gain/Loss	Gain/Loss %	Annualized Return
AT&T	AT	24-Dec-04	500	\$5.40	\$4,800	\$6.30	\$3,150	-\$1,650	-34.4%	11.7%
New Corp	NW	02-May-07	2,400	\$1.20	\$2,880	\$14.70	\$35,040	\$32,160	1115.0%	11.7%
American Eagle Outlets	AEOS	15-Jun-07	500	\$1.91	\$955	\$3.00	\$1,500	\$545	57.1%	11.7%
Anger	ANGR	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%
Dynex	DY	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%
Dynex Highway	DYH	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%

Compare two indexes and your Portfolio

Annualized Rtn—each company

Annualized Rtn—entire portfolio

INSTRUCTIONS

Portfolio name: **I Gotbucks** Version 2.0.20

February 8, 2009

Current Portfolio Report - Annualized

This tool is designed to help track the annualized gain/loss for each stock owned. It will also determine the annualized gain for the entire portfolio. Determining how well your portfolio is doing compared to the S&P500 and Total Stock Market on a continuing basis is shown as well. A few sample stocks are shown for illustration. All data are taken from the Broker's statement and the current index values. They will be updated automatically.

NOTE: There are pop-up instructions in many cells. Enter the cursor over any cell with a red corner to see them.

- Enter the date of the analysis - justify the end of each month. (Use the date on the broker's statement.)
- Enter the portfolio value at the end of the prior year.
- Enter each stock owned on a separate line - Enter the NAME, TICKER SYMBOL, DATE OF PURCHASE, NUMBER OF SHARES, and TOTAL COST/VALUE.
- Enter the CURRENT PRICE for each stock on a monthly basis (yellow column) from your broker statement or section 5 of the SSO.
- Enter any dividends - see brokers statement for % paid.
- Enter any deposits or withdrawals during current year.
- Enter the CASH VALUE THIS MONTH - taken from broker statement.

ALL OTHER CELLS WILL BE POPULATED WITH DATA AUTOMATICALLY.

To delete old data - select each cell or group of cells and press the Delete key. If you are asked for a password you are attempting to delete data in a cell containing a formula and therefore should not be deleted, no password is required for the use of this spreadsheet.

Company Name	Stock Symbol	Date of Purchase	Number of Shares Owned	Cost Per Share	Total Cost	Current Price	Current Value	Gain/Loss	Gain/Loss %	Annualized Return
AT&T	AT	24-Dec-04	500	\$5.40	\$4,800	\$6.30	\$3,150	-\$1,650	-34.4%	11.7%
New Corp	NW	02-May-07	2,400	\$1.20	\$2,880	\$14.70	\$35,040	\$32,160	1115.0%	11.7%
American Eagle Outlets	AEOS	15-Jun-07	500	\$1.91	\$955	\$3.00	\$1,500	\$545	57.1%	11.7%
Anger	ANGR	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%
Dynex	DY	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%
Dynex Highway	DYH	17-Feb-05	1,500	\$1.01	\$1,515	\$5.00	\$7,500	\$5,985	395.3%	11.7%

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- ## Managed MF what to look for—
- If you insist on mutual funds-what to look for:
    - No load—front or back—no class B shares
    - Low expense ratio—under 1%
    - Low turnover ratio (low tax cost ratio) <70%
    - Manager in place for 5 years or greater
    - Compare 3-5 year return
      - Has current mgr been in charge during that time?
    - Don't buy recent hot performers
    - Use Morningstar for this information

- ## Bottom line:
- Save 10% of your paycheck
  - Open an Index Fund
  - Learn to invest in individual companies
  - Slowly move from Index Fund into individual companies
  - Beat the market

# Investing 101 —what every investor needs to know –what to teach your children

Bob Adams

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## The last word...

- The ideas expressed are not for everyone
  - 1 If you can't sleep at night (financial worry)
  - 2 If you will need the money in 5 years
  - 3 If you are living off the income
- More stable investments might be better
  - Bond index fund
- Information presented during this presentation is meant to invoke thoughts and ideas only. No recommendation is intended. Individual needs and interests vary.

Toolkit

## Assignment:

- 1) Use these tools to analyze companies
- 2) Buy on paper at a good price  
(Superior rating and good PEG ratio)
- 3) In one year:
  - Determine how well you did
  - Did you beat the market?

Educate yourself

Attend classes and events

Join an investment club

Consider joining BetterInvesting

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## Good Reading:

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>▪ One up on Wall Street<ul style="list-style-type: none"><li>▪ <i>Peter Lynch</i></li></ul></li><li>▪ Take Stock<ul style="list-style-type: none"><li>▪ <i>Ellis Traub</i></li></ul></li><li>▪ Bogle on Mutual Funds</li><li>▪ Common Sense Investing<ul style="list-style-type: none"><li>▪ <i>John Bogle (Vanguard)</i></li></ul></li><li>▪ The World is Flat<ul style="list-style-type: none"><li>▪ <i>Thomas L. Friedman</i></li></ul></li></ul> | <ul style="list-style-type: none"><li>▪ The Future for Investors</li><li>▪ Stocks for the Long Run<ul style="list-style-type: none"><li>▪ <i>Jeremy Siegel</i></li></ul></li><li>▪ A Random Walk Down Wall Street<ul style="list-style-type: none"><li>▪ <i>Burton Malkie</i></li></ul></li><li>▪ You can be a Stock Market Genius -- <i>Joel Greenblatt</i></li></ul> |
|--|--|

[www.half.com](http://www.half.com)

[www.amazon.com](http://www.amazon.com)

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Articles to read:

*The other Big Scandal—*  
*Consumer Reports*

*Homes vs. Stocks*

National Association of Realtors