

# 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...

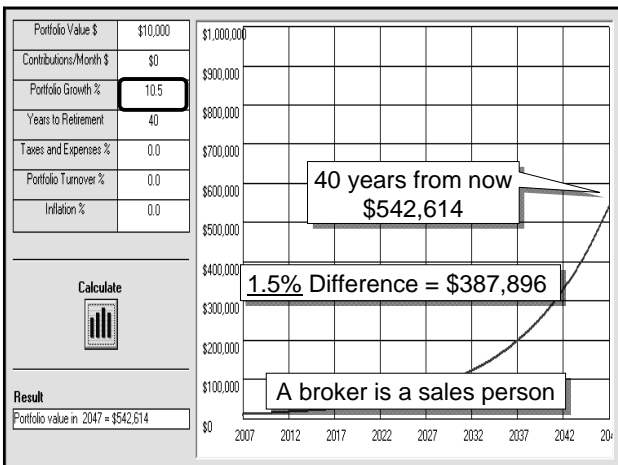
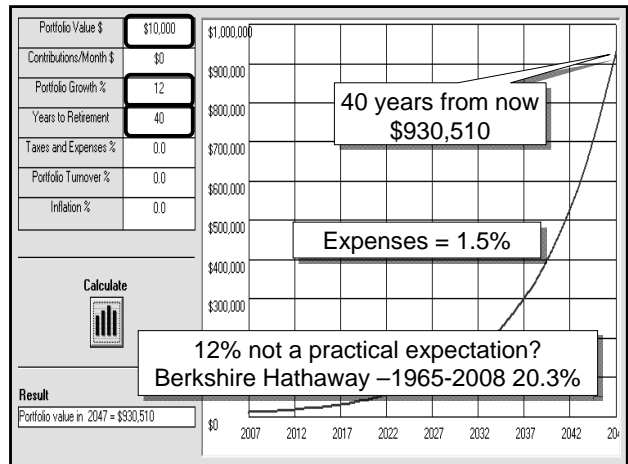
### Next: Part III

## 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%

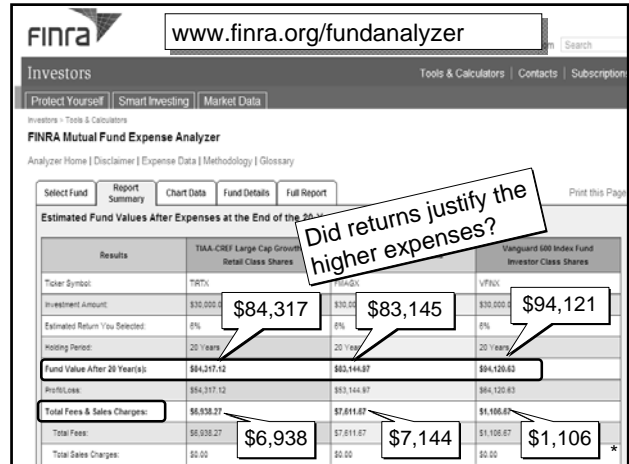
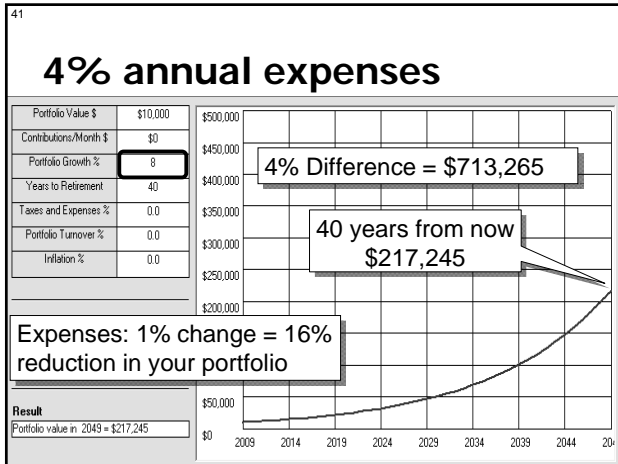
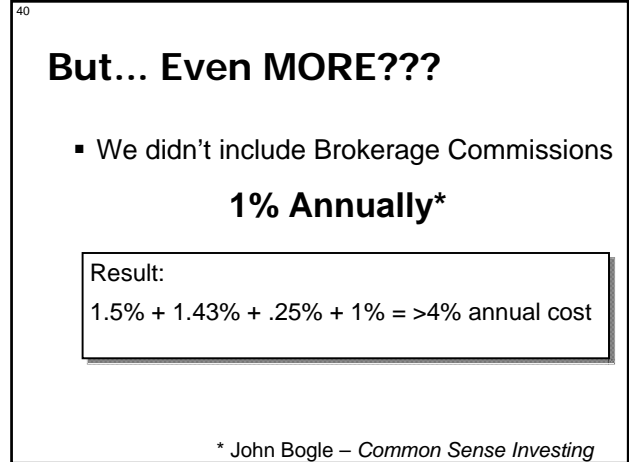
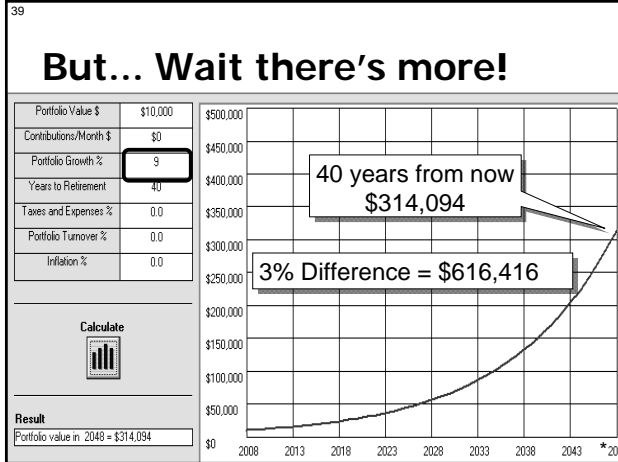
Result:  
1.5% + 1.43% + .25% = >3% annual cost

\* 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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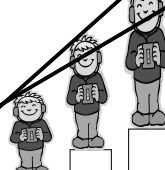
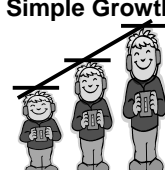
## Compounded Growth: a simple illustration

- 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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## 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

Time Horizon	Probability of Losses (S&P 500)
1 Year	16.7%
3 Year	6.8%
5 Year	2.0%
10 Year	0%

Think LONG-TERM

Based on data from Merrill Lynch Quantitative Strategy

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## Stocks, Bonds, Bills, and Inflation 1925-2001

Why Stocks?

Asset Class	Ending Value	Avg. Return
Stocks (S&P 500)	\$2,073	10.6%
Government Bonds	\$47	5.2%
Treasury Bills	\$21	4.1%
Inflation	\$10	3.1%

Nationally Houses appreciated 347.4% (4.55% annualized)  
 S&P 500 appreciated 1,438.9% (9.99% annualized)  
 data—National Association of Realtors report—(1976-2007)  
 Washington Post- Ranae Merle

Data Source: Global Financial Data, Inc.

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## Stocks, Bonds, Bills, and Inflation 1925-2001

Why Stocks?

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Treasury Bills	\$21	4.1%
Inflation	\$10	3.1%

Data Source: Global Financial Data, Inc.

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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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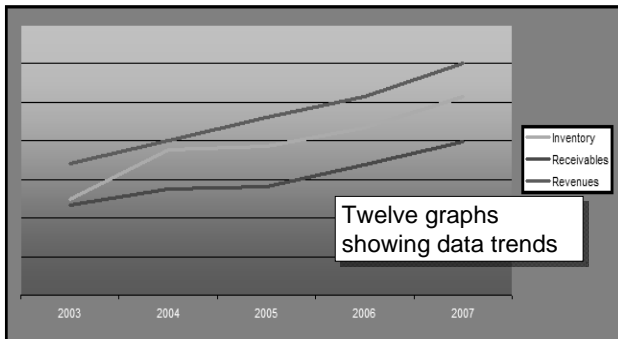
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ANALYZING THE ANNUAL REPORT		Intel Corp.	version 3.28
<p><b>Account Receivable</b> Change: <b>34%</b> OK, Right direction (Decreasing)</p> <p><b>Inventory</b> Change: <b>18%</b> OK, Wrong direction (Decreasing)</p> <p><b>Debt to Equity Ratio</b> Change: <b>5%</b> OK, Right direction (Decreasing)</p> <p><b>Operating Margin</b> Change: <b>1%</b> OK, Right direction (Increasing)</p> <p><b>Free Cash Flow</b> Change: <b>12%</b> OK, Right direction (Increasing)</p> <p><b>Return on Assets</b> Change: <b>1%</b> OK, Right direction (Increasing)</p> <p><b>Return on Equity</b> Change: <b>1%</b> OK, Right direction (Increasing)</p> <p><b>Current Ratio</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Debt to Capitalization</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Current Liabilities</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Liabilities</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Assets</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Equity</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill + Intangible Assets</b> Change: <b>0%</b> OK, Right direction (Stable)</p> <p><b>Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill + Intangible Assets + Other Assets</b> Change: <b>0%</b> OK, Right direction (Stable)</p>			

Automatic data form— with added features

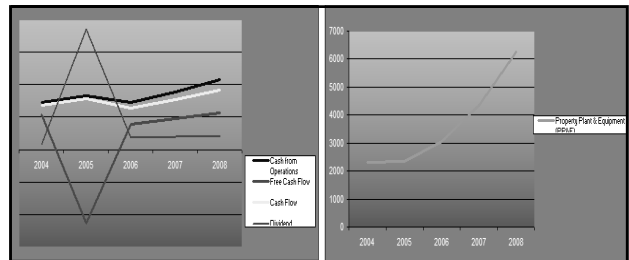
COMPETITORS TO INTEL CORP.		Intel Corp.	Industry
Operating Margin	1%	1%	1%
Free Cash Flow	12%	12%	12%
Return on Assets	1%	1%	1%
Return on Equity	1%	1%	1%
Current Ratio	0%	0%	0%
Debt to Capitalization	0%	0%	0%
Operating Assets to Current Liabilities	0%	0%	0%
Operating Assets to Total Liabilities	0%	0%	0%
Operating Assets to Total Assets	0%	0%	0%
Operating Assets to Total Equity	0%	0%	0%
Operating Assets to Total Debt	0%	0%	0%
Operating Assets to Total Debt + Equity	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill + Intangible Assets	0%	0%	0%
Operating Assets to Total Debt + Equity + Retained Earnings + Dividends + Capital Gains + Share Repurchases + Preferred Dividends + Minority Interest + Goodwill + Intangible Assets + Other Assets	0%	0%	0%



Twelve graphs showing data trends

Return to Analysis Summary

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)

- 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.
- 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 PP&E chart below to see the relationship between PP&E and Free Cashflow.
- If there is 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]	

Enter ticker symbol

Find ticker symbol

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
This company is slightly over priced	
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

bob-adams@comcast.net -- www.bob-adams.net

Quick Analysis -- a form created by Karsh Meisheri	
Microsoft Corp: Company Report	
Capitalization	LargeCap
2009	
Ticker Symbol	msft
Last fiscal year reported	
Find Ticker Symbol	
<b>SALES GROWTH HISTORY:</b>	8
1 point each for any of the past 10 years in which sales increased (max 10 pts)	
<b>SALES GROWTH RATE:</b>	6
Doubling of sales in 5 years or less, 10 pts; subtract 2 points for each additional year	
<b>EARNINGS PER SHARE (EPS) GROWTH HISTORY:</b>	7
1 point each for any of the past 10 years in which EPS increased (max 10 pts)	
<b>EPS GROWTH RATE:</b>	10
Doubling of EPS in 5 years or less, 10 pts; subtract 2 points for each additional year	
<b>DIVIDEND GROWTH HISTORY:</b>	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	
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's 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 this, the "Research & Homework" section is highlighted, featuring a "Study Zone" service that provides access to online study tutors for grades K-12. Other resources listed include Homework Help, Encyclopedias & Databases, Directories, Technology & Computer, Books, Test Prep Resources, Genealogy Resources, Databases, Recommended Websites, and Accelerated Reader.

The screenshot shows the Morningstar website interface. It includes a "Turn to us. The choices will surprise you." slogan, a "LOG IN TO YOUR ACCOUNT" section with a "DON'T HAVE AN ACCOUNT? GET A LIBRARY CARD" link, and a search bar for "Items in the Catalog". Navigation tabs include Home, Using the Library, Books & Reading, Research & Homework, Programs & Classes, Events, and About KCLS. The main content area is titled "KCLS Database Access" and "Welcome to Morningstar", providing instructions on how to use the system and a "Submit" button for library card information.

The screenshot shows the Morningstar Research Center website. It features a navigation bar 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 chart or data visualization and a "Screen for" button. Below the charts, there are links to various reports and analyses, such as "Stock Recommendations", "Fund Recommendations", "ETFs by Trading Volume", and "ETF Analyst Reports". The footer includes a "User's Agreement" link and a copyright notice for 2009 Morningstar.

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

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

**Performance more** **Key Stats more**

Growth of \$10,000 10-31-09

Morningstar Category Large Growth

Morningstar Rating **1** ★

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.

Expense Ratio % 0.71

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 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.

% Rank in Cat 24 83 86

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**Mutual Fund**

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.

**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**

76

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

**Portfolio Annualized Rate of Return**

Statement date: **31-Aug-09** \$ **25,214** ←Starting Balance - Jan 1st  
 ←Value this month \$ **22,121**

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

1 Enter the name of your portfolio and the year of the analysis

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

3 Enter the balance at the beginning of the year

4 Enter the balance at the end of each month or end of the year

5 Enter the appropriate data for the end of the year

6 Click on the links to get historical data for the DOW and S&P 500

7 TO REMOVE OLD DATA: Select data in yellow cells and press the Delete key.

8 Click here to return to Analysis page

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Historical DOW Values | Historical S&P 500 Values

Portfolio name: **I Gotbucks**  
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	YTD %	Annualized Return
AT&T	AT	24-Dec-04	500	\$5.40	\$4,800	\$6.30	\$3,150	(\$1,650)	-34.4%	11.3%
Bank of America	BAC	02-May-07	2,400	\$1.20	\$2,880	\$14.70	\$35,040	\$32,160	1120%	14.8%
American Eagle Outfitters	AEO	17-Feb-05	1,500	\$10.00	\$15,000	\$9.00	\$13,500	(\$1,500)	-10.0%	4.2%
Anger	ANGR	17-Jun-05	100	\$2.20	\$220	\$2.40	\$240	\$20	9.1%	5.0%
Dynegy Holdings	DY	17-Oct-07	30	\$3,400.00	\$102,000	\$4,100	\$123,000	\$21,000	20.6%	6.2%

Compare two indexes and your Portfolio

Annualized Rtn—each company

Annualized Rtn—entire portfolio

INSTRUCTIONS

1 Enter the date of the analysis - justify the end of each month

2 Enter the portfolio value at the end of the prior year

3 Enter each stock owned on a separate line - Enter the NAME, TICKER SYMBOL, DATE OF PURCHASE, NUMBER OF SHARES, and TOTAL COST/VALUE

4 Enter the CURRENT PRICE for each stock on a monthly basis

5 Enter any dividends - see brokers statement for % paid

6 Enter any deposits or withdrawals during current year

7 Enter the CASH VALUE THIS MONTH - taken from broker statement

ALL OTHER CELLS WILL BE POPULATED WITH DATA AUTOMATICALLY

RETURN TO PORTFOLIO ANALYSIS PAGE

Portfolio name: **I Gotbucks**  
February 8, 2009

**CURRENT PORTFOLIO REPORT - ANNUALIZED**

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- 81
- ## 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