

Six Steps for Picking a Stock

Using *The Value Line Investment Survey*™



The Value Line Investment Survey contains a wealth of information on approximately 1,700 stocks. Here we show just one way that an investor can use that information to pick a stock.

1. LOOK FOR A STOCK RANKED 1 OR 2

First, look at Value Line's Timeliness rank. Timeliness is Value Line's measure of the expected relative price performance of a stock over the coming six to 12 months. Ranks go from 1 (Highest) to 5 (Lowest).

To start your selection process, look for stocks ranked 1 or 2. You may also buy a stock ranked 3, but Value Line recommends that you have some special reason for choosing it. (One such reason might be that Value Line's 3- to 5-year projected stock price gain is favorable.) Never buy a stock ranked 4 or 5.

TIMELINESS	1	Raised 5/10/02
SAFETY	3	New 7/7/95
TECHNICAL	2	Raised 9/27/02
BETA	1.00	(1.00 = Market)

2. LOOK FOR A STOCK WITH A SAFETY RANK OF 1, 2, OR 3

Then, if you are concerned about the risk of your investments, you should look at a stock's "Safety" rank. (If safety, or risk, is of no concern to you, you can skip this section.) Value Line defines Safety as the combination of the financial strength of a company and the volatility of a company's stock price. It is not a forecast of stock price performance. As with Timeliness, we rank all stocks from 1 (Highest) to 5 (Lowest). If you want to invest in a company that is relatively strong financially and in a stock that is relatively less volatile, pick a stock with a Safety rank of 1 (Highest), 2 (Above Average), or 3 (Average). Stay away from stocks with ranks of 4 or 5.

2005-07 PROJECTIONS			
	Price	Gain	Ann'l Total Return
High	35	(+170%)	28%
Low	25	(+90%)	18%

3. LOOK FOR A STOCK THAT IS EXPECTED TO RISE BY MORE THAN MOST OTHERS

Next, look at Value Line's three- to five-year stock price projections. As a rule of thumb, stocks with average projected gains of more than 80% are considered attractive,

but market conditions do change, and you should check the front cover of *Summary & Index* each week to see what the current median figure is.

If the median appreciation potential for all stocks is 80%, for example, you will want to choose a stock that has a projected price gain of more than 80%. To calculate the average projected gain for a stock from a Value Line page, take the projected high and low % gain (see box), and calculate the average of the two numbers. If the average for the stock you are looking is more than 80%, you should consider buying it.

One Word Of Caution: You will often find stocks that are very promising based on the Timeliness rank, but show little appreciation out 3- to 5-years. You will also find the opposite. The reason is that the time frames are different: Timeliness is a forecast for the next six to 12 months; the 3 to 5 year projected gain is obviously for a much longer time period. When there is such a discrepancy, you will have to decide if shorter-term or longer-term appreciation is your goal.

4. LOOK FOR A STOCK THE ANALYST LIKES

Next, read the text in the lower right that was written by a Value Line analyst. Does the analyst think the earnings outlook for this stock is positive? Does the analyst think that the stock price is likely to appreciate? Do you get a positive feeling when you finish reading the commentary?

If the commentary is positive, you should consider buying the stock.

Analyst's Commentary

Humana's performance in the first half of 2002 was exemplary. The company was able to expand its customer base by 100,000 lives, or 2% from its year-ago level and, with that, boost revenues significantly. Further, profits in the commercial segment remained strong despite the fact that the second quarter is seasonally weak. Here, increased premiums and administrative services fees drove the solid results. Elsewhere, many eyebrows were raised when HUM's medical loss ratio (MLR) jumped by over 1% on a sequential basis. But this rise was associated with the reinforcement of premiums reinsurance (TRICARE arms, which were booked as medical costs. Excluding these charges, the MLR only rose by a few basis points. All told, we see no reason why these positive trends will not continue, and that reinforces our expectation for a hefty earnings advance in 2002.

We expect further positive earnings comparisons in 2002. Assuming the current industry landscape remains intact with regard to fully premiums, HUM should continue to outperform its peers.

During this ongoing economic downturn, the company has substantially reduced its cost structure by exiting its noncore markets in order to focus on its larger positions. This maneuver will likely result in margin expansion over the longer term, and Medicare rates are also expected to moderately rise over the next year. In addition, HUM plans to branch out into Humana insurance subsidiary Foreyn into this growing market could support future growth going forward. In a show of support for the company's fundamentals, management approved a \$100 million stock repurchase program.

This stock is ranked to be a top-notch performer in the coming year. The share price recently fell 25% as a result of an unfavorable decision in a class-action lawsuit against the HMO industry. We think this was an overreaction on the part of investors, and the lower quotation adds to the stock's appeal. Additionally, the company's rising cash flow may allow accretive industry landscape remains intact with regard to fully premiums, HUM should continue to outperform its peers.

Ed M. Manning September 27, 2002

5. LOOK FOR A STOCK WITH STRONG AND CONSISTENT GROWTH CHARACTERISTICS

Look at the Annual Rates of Change box in the left-hand column of every Value Line page. This box shows the annual rates of change in revenues, cash flow, earnings, dividends, and book value over the past 10 and 5 years and for the coming 3 to 5 years (as estimated by Value Line). By looking at the data here, you can very quickly see if a company has been growing, and if Value Line thinks it will continue to grow. You can also see if a company's results have been consistent, or if there has been a lot of variability.

ANNUAL RATES of change (per %)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'01 to '05-'07
Revenues	-- 20.5%	5.5%	5.5%
Cash Flow	-- 5.0%	4.5%	4.5%
Earnings	-- -2.0%	4.5%	4.5%
Dividends	-- --	Nil	Nil
Book Value	-- 5.0%	6.0%	6.0%

If a company's growth characteristics are strong (generally showing increases of at least 10% a year), you may want to consider buying the stock. If the growth has been consistent, you have another reason for buying the stock.

6. DIVERSIFY

New investors often don't have a lot of money, and they frequently can't buy the six to ten stocks that Value Line recommends to create a diversified portfolio. However, even in the beginning, diversification is important. If the first stock you buy is in a company that makes computer software, don't make your second purchase a computer manufacturer or even a semiconductor company that sells to the computer industry. Your second purchase should be in a very different industry (maybe drugs, or restaurants or petroleum).

Your goal should be to create a portfolio with stocks in at least six diverse industries.

Note: In order to calculate a Timeliness rank, Value Line needs two full years of financial statements and stock trading history. Stocks that lack this information don't have Timeliness ranks.