Value Line®

ESSENTIAL STEPS

TO PICKING A STOCK

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The Value Line Investment Survey® contains a wealth of data — past, present, and future. Here we outline our top six factors to consider when choosing stocks to build your portfolio.

TIMELINESS™ · SAFETY™ · POTENTIAL · CONSISTENCY · ANALYSIS · DIVERSIFICATION

1. LOOK FOR A STOCK RANKED 1 OR 2 FOR TIMELINESS™

To start your selection process, look for stocks ranked 1 or 2 by the Value Line Ranking System for Timeliness. Timeliness is Value Line's measure of the expected Relative Price Performance of a stock over the coming six-to-12 months.

Value Line Ranks range from 1 (Highest) to 5 (Lowest). You may also consider purchasing a stock ranked 3 or 4, but we recommend that you have some particular reason for choosing it. Based on your investment goals, reasons might be that our three-to-five year projected stock price gain is favorable, or that equity offers an attractive dividend yield supported by a strong balance sheet.

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

Value Line defines our Safety Rank as the combination of the company's financial strength and the volatility of a its stock price. Safety is not a forecast of stock price performance. As with Timeliness, we rank all stocks from 1 (Highest) to 5 (Lowest).

Based on your level of acceptable risk, evaluate the stock's Safety Ranking. If you want to invest in a company that is relatively strong financially and is an issue that is relatively less volatile, then choose a stock with a Safety Rank of 1 (Highest) or 2 (Above Average). Value Line typically recommends staying away from equities ranked 4 or 5 for Safety.

3. LOOK FOR STOCKS WITH THE BEST POTENTIAL FOR GROWTH

Review Value Line's three-to-five year projections for each issue. As a rule of thumb, stocks with average projected gains of more than 50% are considered attractive, but market conditions do change. You can find the current median figure for average projected gains on the front cover of the Summary & Index each week.

For example, if the median appreciation potential for our investment universe is 50%, you will not want to choose a stock that has a projected price gain of less than 50%, unless it is purchased primarily for income. To calculate the average projected gain for a stock from a Value Line report, take the projected high and low percentage gain, and calculate the average of the two numbers.

One word of caution: You will often find stocks that seem very promising based on the Timeliness Rank, but show little appreciation three-to-five years out. You will also find the opposite. The reason for this is the different time frames for each projection.

Value Line's Timeliness Rank is a forecast for the next six-to-12 months only, while the three-to-five year projected gain is obviously a much longer time period. When there is such a discrepancy, you will have to consider whether a shorter-term or longer-term appreciation fits better with your personal investment strategy and goals.

4. LOOK FOR STRONG AND CONSISTENT GROWTH CHARACTERISTICS

The Annual Rates of Change information shows changes in Revenues, Cash Flow, Earnings, Dividends, and Book Value over the past 10 years, over the past five years, and for the coming three-to-five years as projected by Value Line. By looking at this data, you can see very quickly whether a company has been growing and if we think it will continue to grow satisfactorily. From here, you can also study the results to see if they have been consistent, or if there has been a lot of variability in that time.

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 rate of growth has also been consistent, you have another reason for adding it to your portfolio.

5. FULLY EXAMINE THE ANALYSTS' COMMENTARY

Value Line analysts deliver unbiased commentary for each stock, scrutinizing many notable factors for the company and the industry such as current situation, recent and upcoming events which may affect Stock Price Appreciation, Profits, Earnings Outlook, and more.

Based on the analysts' outlook, you may consider whether the risks outweigh the rewards, and whether an equity fits into your overall investment strategy.

6. DIVERSIFY

From the start, having a diversified portfolio is important. New investors often don't have a lot of money and frequently are not prepared to buy the ten to twenty stocks that Value Line recommends to create a well-balanced portfolio. Your goal should be to create a portfolio with stocks in at least ten diverse industries.

For example, if the first stock you purchase is a maker of computer software, you should avoid making your second purchase a computer manufacturer, or even a semiconductor company that sells to the computer industry. In order to minimize your risk, you should purchase a stock in a different area of industry.

Also available from Value Line

The Value Line Investment Survey®

The Value Line Investment Survey — Small & Mid-Cap

The Value Line 600

Value Line Select®

Value Line Dividend Select

The Value Line Special Situations Service®

The Value Line Fund Advisor

The Value Line Options Survey

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Value Line Publishing LLC
485 Lexington Avenue, 9th Floor
New York, NY 10017-2630
vlcr@valueline.com
1-800-VALUELINE (1-800-825-8354)
www.valueline.com

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