Building An Investment Portfolio

BUILDING YOUR PORTFOLIO

What Value Line Does

**By Industry — Timeliness™**

Value Line ranks groups in order of their Timeliness. (Relative performance in the next 12 months). You will find them listed on the page following the Index to Stocks section in the Summary & Index.

**By Stock — Timeliness™**

Value Line ranks approximately 1,700 stocks in five categories according to their Timeliness. The top 100 stocks are ranked 1 (Highest) for expected relative performance in the next 12 months; 300 are ranked 2 (Above Average); about 900, 3 (Average); 300, 4 (Below Average); and 100, 5 (Lowest).

**By Stock — Safety™**

Value Line also ranks approximately 1,700 stocks according to their Safety in five categories with 1 (Highest) expected to be least volatile and financially most strong, and 5 (Lowest) most volatile and least strong financially.

**By Stock — Technical**

Value Line also ranks approximately 1,700 stocks according to their expected price performance relative to the overall market in the next three to six months, based on a complex analysis of the stock's relative performance during the prior 52 weeks. Unlike the Timeliness Rank, earnings are not a factor in the Technical Rank.

**By Stock — Income**

Value Line estimates the 12 months’ dividend yield of each stock based on its most recent price. The expected yield is updated in the Summary & Index. Value Line also shows, for comparative purposes, the median yield of all dividend-paying stocks on the first page of the Summary & Index.

**Value Line Reports**

Value Line reports on each stock and each industry once every three months, on a preset schedule, in the Ratings & Reports section. The page numbers on which the reports appear are shown in the Summary & Index. When evidence requires, a “Supplementary Report” is published. The “Supplementary Reports” appear in the final pages of the Ratings & Reports section, as well as on our Web site.

**Selection & Opinion**

Value Line's Selection & Opinion section provides a current appraisal of the economy and of the stock market. It recommends how much of one's capital should be invested in common stocks and how much set aside temporarily in cash reserves. Value Line will also recommend, as a general strategy, investments in stocks with lower Betas if we believe that stocks in general are overvalued in the marketplace.

What You Do

**Read the latest Value Line reports on the top-ranked industries. Select at least six industry groups shown to be most timely. See page 1 of the Summary & Index for the page numbers of these industry reports.**

**Make up a list of those stocks included in your six or more most timely industry groups that are ranked 1 (Highest) or 2 (Above Average) for performance in the next 12 months. You will find the latest full-page report on each stock in Ratings & Reports.**

**Eliminate from this list of timely stocks in timely industries those that fall short of your Safety standard.**

**Particularly if you are a short-term investor, you should look at the Technical Ranks and try to limit purchases to stocks with Technical Ranks of 1 or 2. Under no circumstances, however, should the Technical Rank replace the Timeliness Rank, which has a superior record over the years.**

**If one of your objectives is income, you should eliminate from your list those that fall short of your current-income standard. For example, if your standard is 3%, eliminate stocks that yield less than 3%. Or if you accept a stock that yields less than 3%, see to it that other stocks you select yield enough to bring the average up to 3%.**

**Read the latest Value Line reports on the industry groups and stocks that have qualified according to all of your standards.**

**Make your final selection of stocks from the list that has been refined through the above procedures. See to it that you have stock representation in a variety of different and diverse industry groups.**

**When a stock is sold, replace it with another stock ranked 1 or 2 for Timeliness that also meets your standards for Safety and current income. It would be best in the long run to maintain diversification through at least 15 or more stocks in a variety of different and diverse industries.**

**When the Value Line service in its Selection & Opinion section recommends building cash reserves because the general market seems temporarily to be too high, sell stocks and invest instead in short-term government bonds or other safe instruments. In selling, dispose of stocks ranked 5 or 4 or 3 for Timeliness, in that order.**

Post Script: Aggressive accounts may follow a policy of switching out of stocks when they fall to rank 3 for Timeliness and replacing them with others ranked 1. This strategy, of course, will result in a higher turnover rate. Tests have shown that, if followed consistently year in and year out, such a strategy will give an even higher return than the less aggressive policy of switching only when stocks have fallen to ranks 4 and 5.

Note: There can be no assurance that every one of the 1700 stocks will always perform in accordance with its rank for Timeliness. But it can be said that a high percentage have done so in the past and that you place the odds strongly in your favor by keeping your portfolio lined up with the Timeliness Ranks. Note that diversification is essential to this strategy.

Of the Safety Ranks, it can be said that stocks ranked high for Safety have held up better than average during significant market declines in the past. In strongly rising markets, however, high Safety could prove to be a restraining influence upon performance. For example, in the case of two stocks, both ranked 1 (Highest) for Timeliness, the stock ranked 1 for Safety will tend to go up less than another ranked 5 for Safety during a rising phase in the market. Conversely, in a down market, the stock with the high Safety Rank should hold up better than the stock ranked 1 for Timeliness that rated low for Safety.

In the case of well diversified portfolios—those consisting of at least 15 or more stocks in a variety of different industries—we recommend that risk be controlled by applying Beta instead of the Safety ranks.

Explanation: In a widely diversified portfolio, the variations in individual stock prices in response to their individual characteristic risks tend to cancel each other out, leaving the general market fluctuation as the main influence. The Beta measures the individual stock’s sensitivity to the general market. The Safety Rank, on the other hand, is a measure of the stock’s total risk, i.e., sensitivity to the market plus sensitivity to all other factors affecting the individual stock’s price.