
VALUE WIZARD INSIGHTER - January 2001

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1. Upgraded Models

Value Wizard Pro Investment Valuation is the premium edition of the Value Wizard Investment Models. Both versions were upgraded on 21 December 2000. The features and functionality, ease of use, transparency, stability, accessibility and professionalism are improved for both versions.

New Features and Functionality:

- Added initial page to enter description (name, symbol and exchange) for any stock listed on any exchange outside Canada and the United States or for any other equity or non-equity investment asset.
- Added ending page for recapitulation of key data, conclusion, and owner and non-owner decisions (buy, sell, hold, pass).
- Added [Reset Default] and [Clear Form] button on data input pages.
- Created three output report styles: Complete, Summary (no graphs, no tables, condensed narrative), and Text Only (no graphs).

- Created the Stock Hurdler, a Web-based application that requires a ticker symbol for input to a price quote server and outputs whether the stock clears three market hurdles designed to avoid potentially manipulative situations; also includes a Fallen Angel Profiler based on six criteria.

2. Market Analysis

Market analysis can be contrasted with security analysis. The three components of market analysis of interest to long-term intrinsic value investors for a particular stock are market hurdles, fallen angel profile, and price and volume chart.

Market Hurdles: price, volume, and market capitalization.

Fallen Angel Profile: price fall, price recovery, market capitalization independent of hurdle, earnings, price-to-earnings ratio, and dividends.

Price and Volume Chart: long-term intrinsic value investing does not involve charting or the use of advanced charts as in technical analysis. Yet there is at least one use for a simple 1-year chart of price and volume that is explained in the following article. The 52-week high-low price range and the corresponding high-low date range can be used to calculate the slope of decline. The 50- or 200-day average closing price and the 50- or 200-day average trading volume can be used for hurdles in place of the current day's price and volume.

3. Stock Hurdler

The Stock Hurdler uses market hurdles to avoid "microcap fraud" and other potentially manipulative trading situations. The main hurdles are Share Price, Daily Volume and Market Capitalization. In addition, the exchange or market where the stock is primary traded may serve as a hurdle based on the rigor of its listing requirements, rules, regulations and enforcement.

Share Price: the price per share of the stock in local currency.

Daily Volume: the number of shares of the stock traded in one market day. It can be the current day's volume up to the present time, or it can be the average daily volume for a number of previous trading days.

Market Capitalization: the number of total company shares multiplied by the share price; for example, Shares Outstanding times Last Sale price.

U.S. Securities and Exchange Commission: Enforcement Division: SEC Microcap Fraud Initiatives

"Microcap companies are typically thinly capitalized and are often not required to file periodic reports with the SEC. Securities of microcap companies may be quoted on the Over-the-Counter Bulletin Board operated by the National Association of Securities Dealers, Inc., in the Pink Sheets operated by the National Quotation Bureau, and on the Nasdaq Small Cap Market. In any of these trading mediums, public information is limited and a small number of brokers control the market.

"Microcap fraud typically takes one of two forms. The first – the "pump and dump" scheme – often involves fraudulent sales practices, including high pressure tactics from "boiler room" operations where a small army of sales personnel cold call potential investors using scripts to induce them to purchase "house stocks" – stocks in which the firm makes a market or has a large inventory. The information conveyed to investors often is at best exaggerated and at worst completely fabricated. Increasingly, these stocks also are being touted on the Internet by unregistered promoters. The promoters of these companies, and often company insiders, typically hold large amounts of stock and make substantial profits when the stock price rises following intense promotional efforts. Once the price rises, the promoters, insider and brokers sell, realizing their profits.

"Second, as part of the "pump and dump," unscrupulous brokers often employ a variety of fraudulent sales practices including "bait and switch" tactics, unauthorized trading, "no net sales" policies (where investors are discouraged or actually prevented from selling their stocks) and churning (excessive trading in their accounts in order to generate commissions for the broker)."

For more information, visit the U.S. Securities and Exchange Commission website.

4. Angel Profiler

There are many ways and criteria to search for research leads, and all of them are somewhat arbitrarily selected and defined. In addition, exceptions for individual criteria can be made in the case of particular stocks where justified.

The Angel Profiler can be used to look for high-quality companies whose stocks have declined to bargain levels, so-called "fallen angels." Price declines that don't reach bargain levels are of no interest; likewise, companies that are not high quality are of no interest. The six criteria for "fallen angels" include three "fallen" criteria and three "angel" criteria. The rationale for each criterion follows.

Criterion 1 (Fallen): Price 20% below High. The stock must have fallen at least 20% to indicate a significant decline. At the lower price boundary, if the low price is at least \$5.00, the absolute price fall must have been at least \$1.25 from a high of \$6.25 ($\$5.00 / 0.80$). At price levels above the lower boundary, the absolute effect is magnified.

Criterion 2 (Fallen): Price 90% of Fall. The stock must still be trading near its low price to indicate a current buying opportunity. If the price has recovered more than 10% of the absolute amount of the fall in price, then it may no longer be attractively priced. At the lower price boundary, if a stock fell from \$6.25 to \$5.00 and recovered to \$5.125 per share, then it may no longer be a bargain. At price levels above the lower boundary, the absolute effect is magnified.

Criterion 3 (Fallen): Price and Market Capitalization. The stock price must not have fallen low enough for its size to be below \$100 million to indicate that it is still a substantial company with a viable franchise.

Criterion 4 (Angel): Earnings per Share. The company must be profitable to indicate that it is facing a temporary setback and not bankruptcy.

Criterion 5 (Angel): Price-to-Earnings Ratio. The company must be priced low relative to earnings to indicate that it is a bargain.

Criterion 6 (Angel): Dividends (amount, frequency and yield). The company must pay dividends to indicate a seasoned company with a sustainable franchise that is performing its primary role of providing a cash return to its shareholders. Dividends don't lie.

The common stocks of Cisco, Dell, Intel, Kellogg, Lucent, Microsoft, Phillips Petroleum, AT&T, USX-U.S. Steel, Xerox, and Yahoo are tabulated below with data effective 5:00 PM CST Friday 20 December 2000 for both the Market Hurdles and the Fallen Angel Profile.

The hurdles exclude only the lowest priced, thinnest traded, and smallest size companies. Thus we expect most companies to clear all hurdles, and the hurdles exception is No. The exceptions below are highlighted for emphasis.

The angel profile includes only the highest quality companies facing a crisis or hard times. Thus we expect most companies to not fit all criteria of the fallen angel profile, and the fallen angel exception is Yes. The exceptions below are highlighted for emphasis.

Stock	Clear Hurdles?	Fit Angel Criteria?
CSCO	Yes	No: P/E 94 & Dividend 0
DELL	Yes	No: P/E 21 & Dividend 0
INTC	Yes	No: P/E 20
K	Yes	No: 90% of Fall & P/E 28
LU	Yes	No: P/E 23
MSFT	Yes	No: P/E 25 & Dividend 0

Stock	Clear Hurdles?	Fit Angel Criteria?
P	Yes	No: 20% below High & 90% of Fall
T	Yes	Yes
X	Yes	Yes
XRX	No: Price	No: EPS Negative & P/E -113
YHOO	Yes	No: P/E 86 & Dividend 0

XRX price: Last sale \$4.62, 52-Week low 3.75, and 52-Week high \$29.75.

Hypothetical Example:

52-Week High-Low Price Range = 160 to 80.

52-Week High-Low Date Range = 50 calendar days.

Percent High-Low Decline = $(160-80)/160 = 80/160 = 0.50 = 50$ percent.

Percent Rate of Decline = $50\% / 50$ days = 1.00% per day.

Editor's Note: The following price data has been revised from the original due to incorrect data retrieved online and related errors. The reported 52-Week High and Low prices vary widely among the market price data providers due to different adjustments and to errors.

The [BigCharts.com](#) Detailed Quotes include the dates of the 52-Week High and Low prices, and Historical Quotes are available for any calendar day of choice. An example is Ford (F).

Detailed Quote for Tuesday, December 26, 2000

Company Name:	Ford Mtr Co Del
Dow Jones Industry:	<u>Automobiles</u>
Exchange:	NYSE
Shares Outstanding:	1,825,384,000
Market Cap:	43.8 Billion
Short Interest:	13,276,402 (0.73%)
52-Week EPS:	n/a
52-Week High:	57.25 on Monday, April 17, 2000
52-Week Low:	21.6875 on Wednesday, December 20, 2000
P/E Ratio:	n/a
Yield:	5.00%
Average Price:	24.57 (50-day) 36.86 (200-day)
Average Volume:	5,124,200 (50-day) 5,154,900 (200-day)

BigCharts.com: Detailed Quote: F

52 Week Range = 21 11/16 to 31.464809

Date of 52 Week Low = Wednesday, December 20, 2000

Date of 52 Week High = Monday, April 17, 2000

Historical data provider: Interactive Data Corp.

BigCharts.com Interactive Charting: Upper Indicators = Show Splits: F

Splits: 25:24 end of June (stock split), and 2:1 first of August (stock split)

BigCharts.com Historical Quotes: F

April 17, 2000 price data

High = 57 1/4

Low = 52

Close = 57 1/16 or 57.0625

Split Adjusted Price = 31.361758

Adjustment Factor = 1.819493:1

$31.361758 * 1.819493 = 57.0625$

December 20, 2000 price data

High = 23 1/4

Low = 21 11/16 or 21.6875

Close = 22 1/8

No Splits

n/a

n/a

Average Daily Trend or High-Low Range Decline:

Absolute Price Decline = High - Low = 31.464809 - 21.6875 = 9.7773

Percentage Price Decline = 9.7773 / 31.4648 = 31.07%

Date Range of Decline = 17 Apr 00 to 20 Dec 00

Duration of Decline = 247 calendar days (not trading days)

Percentage Decline per Day = 31.07 / 247 = 0.126% per day.

Most Extreme Day or Maximum Daily Decline:

Not calculated.

Overreaction or Intermediate Decline:

Visual inspection of the Ford Motor Company chart reveals that an over-reaction may have occurred at different times. These relatively fast intermediate declines will not be revealed by the purely mechanical measures of the trend and the extreme unless they happen to be also a daily extreme. When not an extreme, the intermediate decline is masked by the broader High-Low Range Decline of 0.126% per day. Rapid declines in widely held stocks are usually reported in the daily business news headlines.

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