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.

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.

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.

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

   Look at the Annual Rates of Change boxes 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.

   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.