

# INDEX

## A

AAA corporate bond rate, 69-72  
 Abercrombie & Fitch, 254  
 ABN Amro, 64  
 Access to distribution, 112-113, 276, 302  
 Access to supply/number of suppliers, 113-114, 277, 303  
 Accounting shortcuts, xxiii  
 Accounts payables, 200, 337  
     on cash flow statement, 339  
 Accounts receivables, 336  
     calculating receivables/sales percentages, 219-221  
     channel stuffing, 218-219  
     and customers who can't pay, 219  
     and inventories, 199-200, 336  
     on cash flow statement, 339  
     as red flag, 217-221, 226, 313-314  
 Accredo Health, 56-58  
 Accrued expenses, 337  
 Acquisitions, 339  
 ACT Manufacturing, 200, 227  
 ADC Telecommunications, 50-52  
 Advanced Micro Devices, 181-182  
 Advanced Stock Search  
     (Business Week), 28  
 Alaska Airlines, 254  
 Alberto Culvert company, 307-308

Albertson's, 186-187, 196-197  
 Alpharma  
     target pricing process, 81-88  
     conversion to EPS, 86  
     net income computation, 85  
     net profit margin estimate, 84  
     P/E range estimate, 86-87  
     shares outstanding estimate, 85-86  
     target price range estimate, 87  
     target year sales forecast, 82-83  
 Amazon.com, 130, 211  
 American Association of Individual Investors (AAII), 40, 140  
 American Express, 149  
 American Woodmark, 148  
 Amkor Technology, 220-221  
 Amortization, 178, 199, 206  
     on cash flow statement, 338  
     on income statement, 335  
 Analysis process, 3-11  
     candidate stocks, finding, 4  
     detailed analysis, 7-10  
     quick prequalify test, 4-7  
     sell guidelines, 10-11  
     stock analysis, 4  
 Analysis scorecards, 10, 341-350  
     growth stock, 346-349  
     value stock, 344-346

Analysts' data, analyzing, 45-65, 290-294  
 analysts' research reports, 266  
 earnings forecasts/trends, 290-291  
 earning forecast trends, 292  
 forecast earnings growth, 292  
 earnings growth forecasts and trends, 265-266  
 research reports, 294  
 revenue forecasts, 266, 293  
 sentiment index, 264-265, 290  
 surprise history, 266, 292-293  
 value investing, 264-266  
 Analysts' ratings and forecasts, 347  
 value stock analysis scorecards, 344  
 Analysts' research reports, 266  
 Andrew Corporation, 193-195  
 Annual earnings growth rate, 70-71  
 AOL Time Warner, 27-28, 52  
 Asset turnover, 144  
 AT&T, 115  
 ATI Technologies, 261-262, 264-272  
 value stock analysis scorecards, 344-346  
 Average number of shares, on income statement, 335  
 Average yield, 165-166  
 Avici Systems, 101  
 Avon Products, 171, 173

**B**

Balance sheet, 152-154, 334, 335-337  
 current assets, 336  
 current liabilities, 337  
 long-term assets, 336  
 long-term debt, 337  
 shareholders equity, 337  
 Bank of America, 101  
 Bankruptcy candidates, categories of, 130-131  
 Bar charts, 246  
 Barriers to entry, 110-111, 276, 302  
 Bassett Furniture, 254  
 BEA Systems, 254  
 Beazer Homes, 254  
 Bed Bath & Beyond, 182-184, 188-189, 307-308  
 Best industry fragmented vs. concentrated characteristics, guidelines for, 100  
 Bethlehem Steel, 132  
 BigCharts, 19-20  
 Black Box Corporation, 185  
 Bond ratings, 130, 159-162  
 Bond Screener, Yahoo, 164-165

Bonds, 163, 164  
 average yield, 165-166  
 basics of, 163-164  
 callable, 164  
 current yield, 163-164  
 denominations, 163  
 maturity, 163  
 non-callable (NC), 164-165  
 rate, 163  
 yield, 164-165  
 yield to maturity, 164  
 Borders Books, 124  
 Borders, Louis, 124  
 Boston Chicken, 124  
 Brand identity, 111, 276, 302  
 Buffett, Warren, 41  
 Business model score, 277  
 Business plan, 348  
 value stock analysis scorecards, 345  
 Business plan analysis, 9, 109-121, 276-277, 302-303  
 access to distribution, 112-113, 276, 302  
 access to supply/number of suppliers, 113-114, 277, 303  
 barriers to entry, 110-111, 276, 302  
 brand identity, 111, 276, 302  
 business model score, 277  
 Business Plan Score Scorecard, 110, 120, 121, 303  
 clean accounting, 278  
 distribution model, 111-112, 276, 302  
 earnings growth stability, 278  
 growth by acquisition, 116-118, 303  
 growth investing, 302-303  
 key executive and board quality, 278  
 number of customers, 114-115, 277, 303  
 organic growth, 303  
 acquisition growth vs., 277  
 overblown competitive advantages, 118-120  
 patents, 119  
 proprietary technology/ production processes, 119-120  
 predictable revenue stream, 277  
 product and market diversification, 277  
 product cycle, 115, 277, 303  
 product/market diversification, 115-116, 303  
 product useful life/product price, 113, 276, 302

- revenue stream predictability, 114, 303
- stock ownership, 279
- value investing, 276-277
- Business plan/growth by acquisition, as company-specific risk, 23
- Business Plan Score Scorecard, 110, 120, 121, 303
- Business Week, 27-28
- Busted Cash Burner analysis, 279
- Busted Cash Burner test, 305-307
- Busted cash burners, 279-280
  - as bankruptcy candidates, 130
  - cash burner analysis, 135-136
  - cash flow, 133-134
  - cash flow negative
    - and working capital negative, 138
    - and working capital positive, 137-138
  - cash flow positive
    - and working capital negative, 136-137
    - and working capital positive, 136-137
  - potential, detecting, 133-139
  - working capital, 134-135
    - comparing current assets to current liabilities, 135
    - current assets, 134
    - current liabilities, 134
- Butler, Gregory, 124
- Buy-side analysts, 46, 47-48
- BuySellBonds, 160, 164
- C**
- Cabot Microelectronics, 113
- CACI, 148
- Caliber Learning Network, 138
- Calico Commerce, 138
- California Pizza Kitchen, 254
- Callable bonds, 164
- Candidate stocks, finding, 4
- Capital expenditures, 339
  - depreciation vs., 314-315
- Capital lease obligations, 337
- Capital leases, 337
- Capitalized software development costs, 201
- Cardolite, 114
- Caremark Rx, 127
- Cash, 200-201
  - Cash and equivalents, 200-201, 336
  - Cash burner analysis, 135-136
  - Cash burners, 205
  - Cash flow, 6, 133-134, 199, 310-311.
    - See also* Operating cash flow (OCF)
    - quarterly cash flow reports, 205
  - Cash flow analysis, 199-205
    - cash, 200-201
    - dubious allocations, 201
    - free cash flow, 203-205
    - operating cash flow (OCF), using, 202-203
    - quarterly cash flow reports, 205
    - working capital changes, 199-200
  - Cash flow negative
    - and working capital negative, 138
    - and working capital positive, 137-138
      - Calico Commerce, 138
      - DoubleClick, 138
  - Cash flow positive
    - and working capital negative, 136-137
    - and working capital positive, 136-137
  - Cash flow statement, 225-228, 334, 338-340
    - financing activities, 340
    - investing activities, 339-340
    - net change in cash, 340
    - operating activities, 338-339
    - red flags, 225-228
  - Cash flows, 154
  - Cash from operations, on cash flow statement, 339
  - Caterpillar, 149
  - Cendent, 149
  - Channel stuffing, 218-219
  - Chart types, 246-247
  - Checking the buzz, 7
  - Chico's
    - FAS, 53, 148, 174-176, 203
    - free EBITDA, 208
  - Christopher & Banks, 148, 203
  - Church & Dwight, 193-196
  - Cisco Systems, 52, 70, 100-101, 115, 148-149, 171, 173, 201, 259, 339-340
    - E=SP formula, 170
  - Citigroup, 101
  - CNBC on MSN Money, xxiv
  - CNET.com, 55-56
  - Coca Cola, 149, 171, 174
  - Company and industry overview, 5

Company-specific risks, 19-22  
 business plan/growth by acquisition, 23  
 faltering growth/creative accounting, 24  
 financial health, 23  
 high expectations, 24  
 interest rate risk, 22  
 litigation, 21  
 products on allocation, 20-21  
 restatement of earnings, 21  
 sector outlook, diminishment of, 22  
 valuation, 24

Compaq, 112

Comverse Technology, 252, 256

Concentrate on the strongest candidates (COSC), 4, 7, 264, 287-288, 289

Conference calls, 323-326

Consensus ratings, 49-50

Core Data, 178, 179, 333

Corporate bond ratings, 159-160

COSC. *See Concentrate on the strongest candidates (COSC)*

Cost of sales, on income statement, 334

Costco, 170-171, 172, 254

Covad, 113

Creative accounting, as company-specific risk, 24

Credit analysis, 144

Credit Lyonnais, research reports, 64

Current assets, 336

Current liabilities, 337

Current portion LT debt, 337

Current ratio, 153

Current yield, 163-164

Current yield, bonds, 163-164

Customers, number of, 114-115

CVS, 117

Czinger, Kevin, 124

**D**

D&K Wholesale, 148

Days Sales Outstanding (DSOs), 218

Debt and capital, 142-143, 156-157  
 shares outstanding, 143  
 total liabilities to total assets (TL/A ratio), 142  
 working capital, 143

Deferred income tax, 337

Deferred revenue, on cash flow statement, 339

Deferred taxes, on cash flow statement, 338

Dell Computer, 104-107, 149, 203, 206-208, 307

Deluxe Screener (MSN Money), 28

Denominations, bonds, 163

Depreciation, 178, 199, 206  
 on cash flow statement, 338  
 on income statement, 335

Detailed analysis, 7-10  
 analysis scorecards, 10  
 of analyst's data, 7-8  
 business plan analysis, 9  
 financial strength analysis, 9  
 industry analysis, 8-9  
 management quality, assessing, 9  
 ownership considerations, 10  
 price charts, 10  
 profitability and growth analysis, 9  
 red flags, detecting, 10  
 target prices, establishing, 8  
 valuation, 8

Detailed Fiscal Fitness Exam, 279, 305

Direct to Consumer PC industry key performance measures, 103-104

Direction, market, 18-19

Distribution model, 111-112, 276, 302

Dividends, 77

DoubleClick, 138

Downtrends, 242  
 avoiding, 245-246

Drernan, David, 41

DRS Technologies, 148

Dubious allocations, 201

Dynergy, 162

**E**

Earnings forecasts/trends, 290-291  
 earning forecast trends, 292  
 forecast earnings growth, 292

Earnings growth  
 converting to sales growth, 98-99  
 rate of, 74-75  
 stability, and management quality, 127

Earnings per share (EPS), 170  
 conversion to, 86  
 estimating, 274, 298  
 growth, 58  
 on income statement, 335

Earnings reports, 323-326  
 analysts' research, 326  
 generally accepted accounting practices (GAAP), 325  
 guidance, 325-326

- operating margin, 325
- pro forma, 324
- receivables/inventories, 325
- sales forecasts, 325
- Earnings surprise, 61-62
  - history lessons, 61-62
  - value vs. growth, 62
- eBay, 211
- EBITDA, 144, 146
  - free EBITDA, 208-209
  - operating cash flow vs., 205-208
- Edgar database, 333
- Employee stock options, tax benefits
  - from, on cash flow statement, 338-339
- Enron Corporation, 129, 146, 161-162
- EPS. *See* Earnings per share (EPS)
- Escalade, 148, 203
- Exodus, 146, 163
- Exponential moving average (EMA), 243
- F**
  - Faltering growth/creative accounting, as company-specific risk, 24
  - 50-day moving average, 245-246
  - Financial fitness, 129-130
  - Financial fitness evaluator, 129-167
    - bond ratings, 159-162
    - bond risk, using to identify risky debtors, 162-166
    - detailed fiscal fitness exam, 139-158
    - financially challenged companies, pinpointing, 130-131
  - Fiscal Fitness Exam Worksheet, 167
  - fiscal fitness scores, computing, 150-151
  - gathering needed data from income statement, 151-154
    - balance sheet, 153-154
    - cash flows, 154
    - income statement, 151-152
  - low-debt companies, 131-133
  - measuring fiscal fitness, 141-145
    - added tests, 144-145
    - debt and capital, 142-143
    - operating efficiency, 143-144
    - passing grade, 145-149
    - profitability, 141-142
  - tabulating scores, 155-158
    - added tests, 158
    - debt and capital, 156-157
    - operating efficiency, 157-158
    - profitability, 155-156
  - TTM operating cash flow (OCF), 155
- Financial Forecast Center, 72, 295
- Financial health, 279-280, 305-307, 348
  - Busted Cash Burner test, 305-307
  - busted cash burners, 279-280
  - as company-specific risk, 23
  - Detailed Fiscal Fitness Exam, 279, 305
  - growth investing, 305-307
  - total liabilities/equity ratio (TL/E), 305-306
  - value stock analysis scorecards, 345
- Financial statements
  - balance sheet, 334, 335-337
  - cash flow statement, 334, 338-340
  - finding the data, 340-341
  - income statement, 334-335
  - pro forma accounting vs. GAAP, 341
  - reading, 333-341
- Financial strength analysis, 9
- Financial Times, 260
- Fiscal Fitness Exam Worksheet, 167
- Fiscal fitness scores, figuring percentages, 150-151
- Fiscal year, 175
- Flextronics, 22
- Float, 6
  - and insider ownership, 237-238
- Foodarama Supermarkets, 148
- Ford, 115
- Fragmented industries, 101-107
  - Dell Computer vs. Gateway, 104-107
  - Direct Consumer PC industry, 102-104
  - strong competitors, identifying, 102-107
- Frauds, detecting, 327-331
- Free cash flow, 203-205
- Free EBITDA, 208-209
- G**
  - Gadzooks, 254
  - Gap, The, 149, 170-171, 172, 174
  - Gateway Computer, 104-106, 149
  - General and administrative, on income statement, 334
  - General Electric, 149
  - General Motors, 115
  - Generally accepted accounting principles (GAAP), 74, 205, 227
    - pro forma accounting vs., 341
  - Genesis Micro, 148
  - Georgia Pacific, 149
  - GI/A ratio, 117-119
  - Gillette, 174

Global Crossing, 64  
 Global Technovations, 137  
 Goodwill, 336  
 Google, 107  
 Graham, Benjamin, 41, 68-69, 295  
 Gross margin, 143-144, 178-179  
 Gross profit, on income statement, 334  
 Growth at a reasonable price (GARP), 68, 73-77, 266, 294-295  
   earnings, 74  
   growth rate, 74-75  
   PEG and fair value, 73-74  
   realistic earnings growth  
     estimates, 75  
   return on equity (ROE), estimating  
     maximum growth using, 77  
 Growth by acquisition, 116-118, 303  
   as company-specific risk, 23  
 Growth investing, 305-307  
   analysts' data, analyzing, 290-294  
   business plan analysis, 302-303  
   concentrate on the strongest  
     candidates (COSC), 287-288  
   financial health, 305-307  
   growth candidates, 288-289  
   industry analysis, 300-302  
   management quality, 303-305  
   ownership, 316  
   price charts, 316-317  
   process, 287-319  
     steps in, 289-317  
   profitability, 307-311  
   red flags, detecting, 311-315  
   target prices, 296-300  
   valuation, 294-295  
   when to sell, 317-319  
 Growth investors, 177  
   and high-growth industries, 100  
   moving average (MA), 244  
 Growth stock analysis scorecards, 346-349  
   analysts' ratings and forecasts, 347  
   business plan, 348  
   financial health, 348  
   industry analysis, 347-348  
   management quality, 348  
   ownership, 349  
   price chart, 349  
   profitability, 348-349  
   red flags, 349  
   target price, 347  
   valuation, 347

## H

Hewlett Packard, 111, 119-120  
 High expectations, as company-specific  
   risk, 24  
 High valuations, 5  
 High vs. low margins, 186-188  
 Historical AAA corporate bond rates, 72  
 Historical average annual sales growth, 76  
 Historical sales and earnings growth, 6-7  
 Home Depot, 149, 178  
 Hoover's, xxiv, 101-102, 179, 340-341  
   Fact Sheet, 275  
 Hyping, 329-331  
   quick hype checks, 330-331

## I

IBM, 104, 112, 171, 173  
 Impath, 289-291, 295-300, 308-312, 319  
   growth stock analysis scorecards,  
     347-350  
 Implied growth, 68-73, 295  
   rate of, 69-70  
 Implied growth rate table, 70, 295  
 Income before tax, on income  
   statement, 335  
 Income statement, 151-152, 334-335  
   amortization, 335  
   average number of shares, 335  
   cost of sales, 334  
   depreciation, 335  
   earnings per share (EPS), 335  
   general and administrative, 334  
   gross profit, 334  
   income before tax, 335  
   income tax, 335  
   interest expense, 335  
   interest income/expense, 335  
   net income, 335  
   operating income, 335  
   research and development, 334  
   revenues, 334  
   sales and marketing, 334  
   total operating expenses, 335  
 Income tax, on income statement, 335  
 Industry analysis, 8-9, 95-107, 300-302,  
   347-348  
   and analyst's forecasts, 97-98  
   business/industry, 95-96, 300  
   concentration, 99-101, 275, 301  
   earnings growth, converting to sales  
     growth, 98-99

emerging fragmented industry,  
picking winners in, 101-107  
growth, 275  
growth investing, 300-302  
growth outlook, 96-99, 300  
industry summary, 302  
industry winners, picking, 301  
scuttlebutt, 107, 276, 301  
value stock analysis scorecards, 345  
Industry, defined, 99  
Industry risk, 15, 19  
Inflated inventories, 221-223  
InFocus consensus earnings forecast  
trend, 60  
Insider ownership, 237-240, 316  
float, 237-238  
holdings, 238-240  
avoiding very high  
ownership, 239  
insider trading, 239-240  
Insider trading, 6, 239-240  
Institutional ownership, 235-237, 316  
funds holding large positions of a  
stock, checking, 237  
percentage of shares outstanding,  
235-236  
Intangibles, 336  
Intel Corporation, 100, 148, 149, 171,  
173-174, 181, 182, 287  
Interest expense, on income  
statement, 335  
Interest income/expense, on income  
statement, 335  
Interest rate risk, 22  
as company-specific risk, 22  
Intrinsic value, 295  
defined, 68-69  
Inventories, 199-200, 336  
on cash flow statement, 339  
as red flag, 217-221, 226, 313-314  
Inventory analysis, 221-225  
inflated inventories, 221-223  
retail inventory levels, 223-225

**J-K**

Jabil Circuits, 22  
Juniper Networks, 101  
Key executive and board quality, 123-125,  
278, 303-305  
Key Ratios report, MSN Money, 86-87  
Kmart, 163, 224-225  
Kroger, 186-187, 196-197

**L**

Large-caps, 5, 253  
Lernout & Hauspie, 131, 146  
Lexmark, 119-120  
Line charts, 246-247  
Linens 'n Things, 182-184, 188-189  
Litigation, as company-specific risk, 21  
Locked-up distribution channels, 113  
Long-term assets, 336  
Long-term debt, 337  
Long-term investments, 336  
Long-term receivables, change in, 340  
Low risk vs. low valuation, 14  
Low trading volume stocks, 6  
Low valuation ratios, 5  
Lowes Co., 149  
Lucent Technologies, 53, 115, 131-132,  
147, 259  
Luxottica Group, 111

**M**

Management quality, 123-128,  
303-305, 348  
assessing, 9  
clean accounting, 125-126  
clean accounting/earnings growth  
stability, 304-305  
earnings growth stability, 127  
growth investing, 303-305  
judging, 126  
key executive and board quality,  
123-125, 303-305  
stock ownership, 127-128, 305  
value stock analysis scorecards, 345  
Margin analysis, 309-310  
Margin and overhead (SG&A) trends,  
309-310  
Marginal return on assets, 198-199  
Margins, 178-188  
analyzing, 184-185  
growth investors, 185  
value investors, 185  
comparing, 180-184  
gross margins, 180-182  
operating margin, 182-184  
gross margin, 178-179  
high vs. low, 186-188  
net profit margin, 180  
operating margin, 179  
Market capitalization, 5  
Market direction, 18-19

Market risk, 15  
     market direction, 18-19  
     market valuation, 15-17  
 Market valuation, 15-17  
 Market-weighted average (P/E), 15  
 Market yield, 16-17  
 MarketWatch, 260  
 Maturity, bonds, 163  
 Merck, 52, 86  
 Micro-caps, 5, 253  
 Microsoft, 52, 64, 100-101, 148, 149,  
     151, 153-154, 158, 170-171,  
     172, 178, 180, 254, 261,  
     261-262, 287-288  
 MicroStrategy, 147-148  
 Mid-caps, 5, 253  
 Moody's Investors Service, 159-162  
 Morningstar, xxiv, 96, 341  
     and cash burner analysis, 135-136  
     Portfolio report, 237  
     Star rating, 237  
     Stock Valuation report, 269-270  
     Top Fund Owners report, 238  
 Motorola, 226-227  
 Moving average (MA), 18, 243-244  
     exponential (EMA), 243  
     growth investors, 244  
     simple (SMA), 243  
     value investors, 243-244  
 MP3.com, 21  
 MSN Money, xxiv, 18, 27-28, 97-98, 125,  
     126, 179, 205-206, 232,  
     246, 305, 340-341  
     10-year Summary report, 171  
 Deluxe Screener, 34-40  
     average daily volume last  
         quarter, 36  
     current ratio, 36  
     debt/equity ratio, 36  
     mean recommendation, 37  
     price/sales ratio, 36  
     return on assets, 35  
     return on assets (five-year  
         average), 35-36  
     revenue growth (0.5\*5-year), 37  
     revenue growth (5-year), 37  
     revenue growth (quarter to  
         quarter), 36  
     screen results, 37  
     twelve-month revenue, 36  
 Earning Growth Rate report, 275  
 Earnings Estimates page, 97  
 Key Ratios report, 86-87

## N

Napster, 21  
 Nasdaq, 19  
 Nash Finch, 148  
 Neff, John, 41  
 Net income, 141  
     on cash flow statement, 338  
     on income statement, 335  
 Net income estimate, 273  
 Net income vs. operating cash flow, 313  
 Net profit margin, 180  
 Network Appliance, 98-99  
 99 CENTS Only Stores consensus forecast  
     trend, 59  
 Non-callable (NC) bonds, 164-165  
 Normalizing, 263  
 Nortel Networks, 101, 115, 259  
 Nvidia, 148, 203, 261-262, 275

## O

Oakley, 111  
 Office Depot, 254  
 Operating cash flow (OCF), 142, 154,  
     202-203, 206  
     EBITDA vs., 205-208  
     free cash flow, 203-205  
     quarterly cash flow reports, 205  
     relationship between net income  
         and, 202  
 Operating efficiency, 143-144, 157-158  
     asset turnover, 144  
     gross margin, 143-144  
 Operating income, on income  
     statement, 335  
 Operating margin, 179  
 Oracle, 101, 103, 180, 182  
 Organic growth, 303  
     acquisition growth vs., 277  
 Outback Steakhouse, 254  
 Outstanding shares estimate, 273  
 Overblown competitive advantages,  
     118-120  
     patents, 119  
     proprietary technology/production  
         processes, 119-120  
 Overburdened debtors, as bankruptcy  
     candidates, 130-131  
 Overhead expenses, 188-189  
 Ownership, 10, 235-240, 316, 349  
     growth investing, 316  
     insider, 237-240, 316  
     institutional, 235-237, 316  
     value stock analysis scorecards, 346

**P**

P/E range estimate, 274  
 Patents, 118  
 PEG, 60, 73-74, 295  
 Penn National Gaming, 148, 203  
 Pension plan income, as red flag, 228-229, 314  
 PeopleSoft, 181  
 Pfizer, 86, 170-171, 172, 174, 254  
 Piotroski, Joseph, 41, 139-145  
 PolyMedica, 227-228  
 Portfolio risk, 13-14  
 PowerScreener (Reuters), 28  
 Premade screens, 40-41  
 Price chart(s), 10, 11, 241-248, 316-317, 349  
     bar charts, 246  
     chart types, 246-247  
     downtrends, 242  
         avoiding, 245-246  
     growth investing, 316-317  
     line charts, 246-247  
     moving average (MA), 243-244  
         exponential (EMA), 243  
         growth investors, 244  
         simple (SMA), 243  
     value investors, 243-244  
 risk zone, 244, 246  
 trading volume, 247  
 trends, 241-243  
     value stock analysis scorecards, 346  
 Price to earnings (P/E) ratio, 5  
 Price to sales (P/S) ratio, 5  
 Priceline.com, 176-177, 211  
 Pro forma earnings, 74  
 Product cycle, 115, 277, 303  
 Product/market diversification, 115-116, 303  
 Product useful life/product price, 113, 276, 302  
 Products on allocation, as company-specific risk, 20-21  
 Profit margin estimate, 272  
 Profitability, 141-142, 155-156, 307-311, 348-349  
     cash flow, 310-311  
     and growth analysis, 9  
     growth investing, 307-311  
     margin analysis, 309-310  
     net income, 141  
     operating cash flow, 142  
     quality of earnings, 142

return on assets (ROA), 142, 310  
 sales growth, 307-309  
 trends, 307  
 value stock analysis scorecards, 345-346

Profitability analysis, 169-209, 280-283  
     cash flow analysis, 199-205  
     earnings, sources of, 170  
     EBITDA vs. operating cash flow, 205-208  
     free EBITDA, 208-209  
     growth investors, 177  
     marginal return on assets, 198-199  
     margins, 178-188  
         analyzing, 184-185  
         comparing, 180-184  
         gross margin, 178-179  
         high vs. low, 186-188  
         net profit margin, 180  
         operating margin, 179  
     overhead expenses, 188-189  
     profitability ratios, 189-198  
     sales history, analyzing, 171-177  
     value investors, 177

Profitability and growth analysis, 9

Profitability ratios, 189-198  
     return on assets (ROA), 195-198  
     return on capital (ROC), 194-195  
     return on equity (ROE), 189-194

Proprietary technology/production processes, 119-120

Pump and dump, 327-331

Purchase and sales of investments, 340

Purchase license, 339-340

**Q**

Qualcomm, 119, 246  
 Quality of earnings, 142  
 Quarterly cash flow reports, 205  
 Quarterly reports, 333  
 Quick hype checks, 330-331  
     current ratio, 331  
     market capitalization, 330  
     price, 330  
     price/book ratio (P/B), 330-331  
     TTM revenue, 331  
 Quick prequalify, 4-7, 251-260  
     cash flow, 6, 257  
     checking the buzz, 7, 259-260  
     company and industry overview, 5  
     concentrate on the strongest candidates (COSC), 251-255

float, 6, 256-257  
 historical sales and earnings growth, 6-7  
 market capitalization, 5  
 news sites, 260  
 ratio comparison, 258-259  
 Reuters  
     Financial Highlights report, 257  
     Profile & Snapshot report, 252-253  
     Ratio report, 258  
 trading volume, 6, 255-256  
 valuation ratios, 5-6

**R**

Rambus, 119  
 Rate, bonds, 163  
 Rating agencies, 159-160  
 Realistic earnings growth estimates, 75  
 Red flags, 24, 225-228, 349  
     accounts receivables and inventories as, 217-221, 226, 313-314  
     cash flow statement, 225-228  
     detecting, 10, 211-232, 311-315  
     accounts receivables, 217-221  
     cash flow statement, 225-228  
     growth investing, 311-315  
     inventory analysis, 221-225  
     pension plan income, 228-229  
     sales growth trends, 213-217  
     yellow flags, 229-232  
     net income vs. operating cash flow, 313  
     pension plan income, 314  
     sales growth, 311-312  
     value stock analysis scorecards, 346  
     yellow flags, 314-315  
         capital expenditures vs. depreciation, 314-315  
         income tax rate, 315

Regulation FD, 64  
 Reported earnings, 323-326  
     analysts' research, 326  
     generally accepted accounting practices (GAAP), 325  
     guidance, 325-326  
     operating margin, 325  
     pro forma, 324  
     receivables/inventories, 325  
     sales forecasts, 325

Research and development, on income statement, 334  
 Research reports, 64-65, 294

Researching stocks, 3-12  
     eliminating weak contenders, 4  
 Restatement of earnings, as company-specific risk, 21  
 Retail inventory levels, 223-225  
 Return on assets (ROA), 142, 195-198, 310  
 Return on capital (ROC), 194-195  
 Return on equity (ROE), 189-194  
     estimating maximum growth using, 75  
 Reuters, xxiv, 27-28, 37-40, 46, 49, 101, 125, 126-127, 175, 205, 213, 305, 333, 340  
 bulletproof stocks  
     bulletproof stock qualifications, 38  
     current ratio greater than 1.5, 39  
     net profit margin greater than zero, 39  
     price to cash flow greater than zero, 39  
     screen results, 39-40  
     total debt to equity ratio less than 0.4, 39  
     TTM sales greater than \$50 million, 39  
 cash flow, 257  
 Company Profile page, 96  
 Financial Highlights report, 127, 175, 257, 304, 308  
 float, 256  
 Institutional Holders report, 236  
 Officers and Directors report, 123-124  
 Overview page, 96  
 Profile & Snapshot report, 238, 252-254  
 Ratio report, 258  
 research reports, 64-65  
 valuation ratios, 255  
 Revenue forecasts, 266, 293  
 Revenue stream predictability, 114, 303  
 Revenues, on income statement, 334  
 Rhythm Connections, 113  
 Risk  
     company-specific risks, 19-22  
     defined, 13  
     evaluating, 13-26  
     industry risk, 15  
     interest rate risk, 22  
     and low valuation, 14  
     market risk, 15

portfolio risk, 13-14  
 specific to individual stocks, 15  
**R**  
 Risk zone, 244, 246  
 Russell 2000 index, 19  
**S**  
 S&P 500 Index, 15-19, 60-61, 100, 259  
 Safeway, 186-187, 196-197  
 SAG, 181  
 Sales and marketing, on income statement, 334  
 Sales, general and administrative (SG&A), 188-189  
 Sales growth, 115, 307-309  
   as red flag, 213-217, 311-312  
 Sales history, analyzing, 171-177  
 SanDisk, 222-223  
 Scams, detecting, 327-331  
 SCI Systems, 22  
 Scientific Atlanta, 216  
 Scorecards, 10  
 Screening, 27-42  
   AOL, 27-28  
   Business Week, 27-28  
   MSN Money, 27-28  
   premade screens, 40-41  
   Reuters, 27-28  
   zen of, 40  
 SEC Info, xxiv, 202, 333  
 Sector, defined, 99  
 Sector outlook diminishment, as company-specific risk, 22  
 Securities and Exchange Commission (SEC), 21, 228-229, 333-334  
   Edgar database, 101  
 "Security Analysis" (Graham/Dodd), 68  
 Sell guidelines, 10-11  
   acquisitions, 318  
   competitor reduces guidance/misses forecast, 317  
   consecutive negative surprises, 318  
   deteriorating fundamentals, 318  
   lowered sales/earnings forecasts, 317  
   red flags, 317  
   restatement of earnings, 318  
   same store sales growth declines, 318  
   sequential large one-time charges, 318  
   target P/E or PEG limit exceeded, 317  
 Sell-side analysts, 47-48

Sentiment index, 24, 264-265, 290, 347  
   growth candidates, 55  
   inspiration for, 55-56  
   value candidates, 55  
 Shaheen, George, 124  
 Shareholder equity, 337  
 Shares outstanding, 143  
 Short-term debt, 337  
 Short-term investments, 336  
 Siebel Systems, 181  
 Simple moving average (SMA), 243  
 Small-caps, 5, 253  
 Solectron, 22  
 Solvent and/or profitable companies, as bankruptcy candidates, 131  
 Sprint, 115  
 Standard & Poor's, 159-160  
   analysts, and hold means sell rule, 48  
 Stanley Furniture, 254  
 Staples, 149  
 Steve Madden Limited, 259  
 Stock analysis, 4  
 Stock analysts  
   buy-side, 46  
   consensus ratings, 49-50  
   earning forecast trends, 58-61  
   growth candidates, 59-60  
   long-term earning growth, 60-61  
   value candidates, 59  
   earnings surprise, 61-62  
   estimates of, 56-58  
   earning growth forecasts, 56-57  
   earning per share (EPS)  
    growth, 58  
    forecast spread, 57  
   number of, 52-53  
   ratings, 47  
   Regulation FD, 64  
   research reports, 64-65  
   sales forecasts, 62-64  
   and sell ratings, 48  
   sell-side, 46, 47-48  
   Sentiment index, 53-56  
   Standard & Poor's, 48  
   strong buys vs. sells, 50-52  
   varieties of, 46  
 Stock Charts, 19  
 Stock ownership, 279  
   and management quality, 127-128, 305  
 Stock Search (AOL), 28

Strict sell discipline, establishing, 11

Strong buys vs. sells, 50-52

Strouds, 227-228

Sunglass Hut, 111

Suppliers, number of, 113-114

Surprise history, 266, 292-293

Sybase, 103

Symantec, 136-137

Syncor International, 114

## T

T-bill rates, 16-17

Target, 100

Target price range estimate, 274-275

Target price(s), 294-300, 344, 347

accuracy of, 79-80

Alpharma example, 81-88

conversion to EPS, 86

net income computation, 85

net profit margin estimate, 84

P/E range estimate, 86-87

shares outstanding estimate,

85-86

target price range estimate, 87

target year sales forecast, 82-83

Cisco Systems, 88-93

conversion to EPS, 91

net income computation, 90

P/E range estimate, 92

profit margin estimate, 90

shares outstanding estimate,

90-91

target price range computation,

92-93

target year sales forecast, 88-89

computing, 79

earnings per share estimate, 273-274

EPS estimate, 298

establishing, 8, 79-93

process, 80-88

growth investing, 296-300

net income estimate, 273, 297

outstanding shares estimation, 273,

297-298

P/E range estimate, 274, 298-300

profit margin estimate, 272

purpose in setting, 80

target price range estimate, 274-275

target year sales, 270-272, 296-297

value investing, 270-275

value stock analysis scorecards, 344

Target year sales, 270-272

10K reports, 333

10Q reports, 333

Texas Instruments, 100

Textron, 149

Thomson Financial, 46, 49

Tips, 4

Total liabilities, 337

Total liabilities/EBITDA, 144-145

Total liabilities/equity ratio (TL/E),  
305-306

Total liabilities to equity ratio (TL/E), 131,  
132-133

Total liabilities to operating cash flow  
test, 145

Total liabilities to total assets (TL/A  
ratio), 142

Total operating expenses, on income  
statement, 335

Trading volume, 6, 247

Trailing twelve months' (TTM) per share  
earnings, 155, 294

Trends, 241-243, 307

Trex, 20-21

200-day moving average, 245-246

Tyco, 231-232

## U-V

Valuation, 8, 67-77, 294-295, 347

as company-specific risk, 24

dividends, 77

growth at a reasonable price (GARP),  
68, 73-77, 294-295

growth investing, 294-295

implied growth, 68-73, 295

market, 15-17

value investing

implied growth, 266-269

price/sales valuation check,  
269-270

value stock analysis scorecards, 344

Valuation ratios, 5-6

Value investing, 261-286

analysts' data, analyzing, 261-286  
sentiment index, 264-265

business plan analysis, 276-277

concentrate on the strongest  
candidates (COSC),  
261-262

cycles, 262-263

- earning growth forecasts and trends, 265-266
- analysts' research reports, 266
- earnings forecast trends, 265-266
- forecast earnings growth, 265
- revenue forecasts, 266
- surprise history, 266
- financial health, 279-280
- industry analysis, 275-276
- normalizing, 263
- ownership, 284
- price chart, 284
- process, 261-286
- profitability analysis, 280-283
- red flags, 283
- sell guidelines, 284-286
  - acquisitions, 285
  - deteriorating fundamentals, 285
  - increased borrowings, 285
  - red flags, 286
  - restatement of earnings, 285
  - share price 50 percent above MA, 285-286
  - target P/E achieved, 284-285
- target prices, 270-275
- valuation, 266-270
  - implied growth, 266-269
  - price/sales valuation check, 269-270
- value analysis process, 263-274
- Value investors, 96-97, 177
  - moving average (MA), 243-244
- Value-priced stocks vs. growth stocks, 14
- Value stock analysis scorecards, 344-346
  - analysts' ratings and forecasts, 344
  - business plan, 345
  - financial health, 345
  - industry analysis, 345
  - management quality, 345
  - ownership, 346
- price chart, 346
- profitability, 345-346
- red flags, 346
- target price, 344
- valuation, 344
- VISX, 119
- W**
- Wal-Mart, 100-101, 149, 164-166, 224-225, 226, 287-288
- Walgreen, 117, 170-171, 172
- Weak contenders, eliminating, 4
- Webvan, 124-125, 146
- Weiss, Geraldine, 41
- When to sell. *See* Sell guidelines
- Working capital, 134-135, 143
  - changes to, 199-200
  - comparing current assets to current liabilities, 135
  - current assets, 134
  - current liabilities, 134
- WorldCom, 115
- X-Z**
- Xerox Corporation, 53, 130
- XO Communications, 146
- Yahoo, xxv, 56, 83, 128, 216, 255, 260
  - Analysts Estimates report, 177
  - Bond Screener, 164-165
  - EPS trend report, 59
  - Key Statistics report, 330
- Yellow flags, 229-232, 314-315, 349
  - capital expenditures, 229-230
  - depreciation vs., 314-315
  - income tax rate, 230-232, 315
- Yield, bonds, 164-165
- Yield to maturity, bonds, 164
- Zacks Research, 46, 49
- Zoll Medical, 213-215