

UGBA 98/198

Introduction to Investment

Spring 2009



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Lecture 4 – Growth, ETFs, Options

No Cell Phones!



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Growth Investing

Growth Companies

- Strong fundamentals
- Explosive top line
- Phenomenal bottom line
- Innovative products



General Guidelines

General guidelines

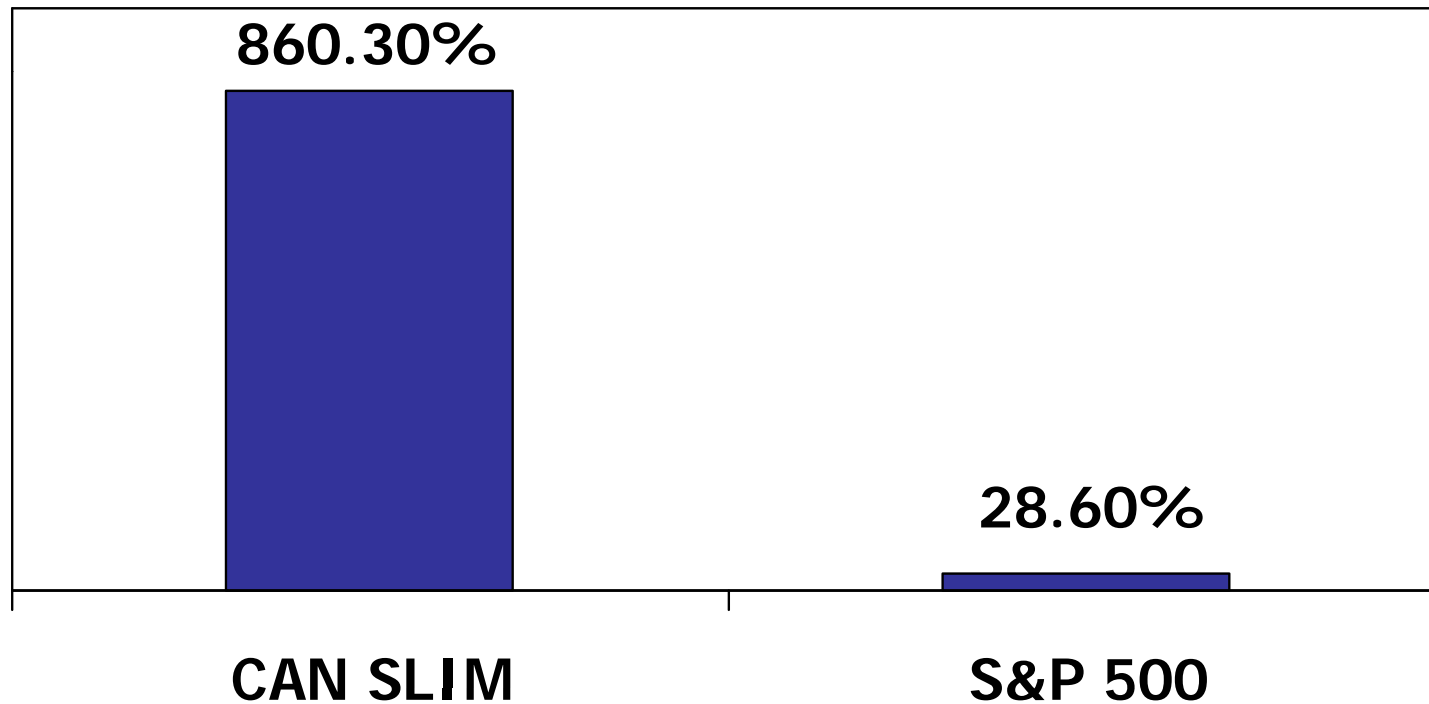
- Strong historical earnings growth
- Strong forward earnings growth
- Control of costs and revenues
- Company efficiency
- Innovative products / industry
- High P/E ratios
- 25% EPS growth year-over-year

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CAN SLIM

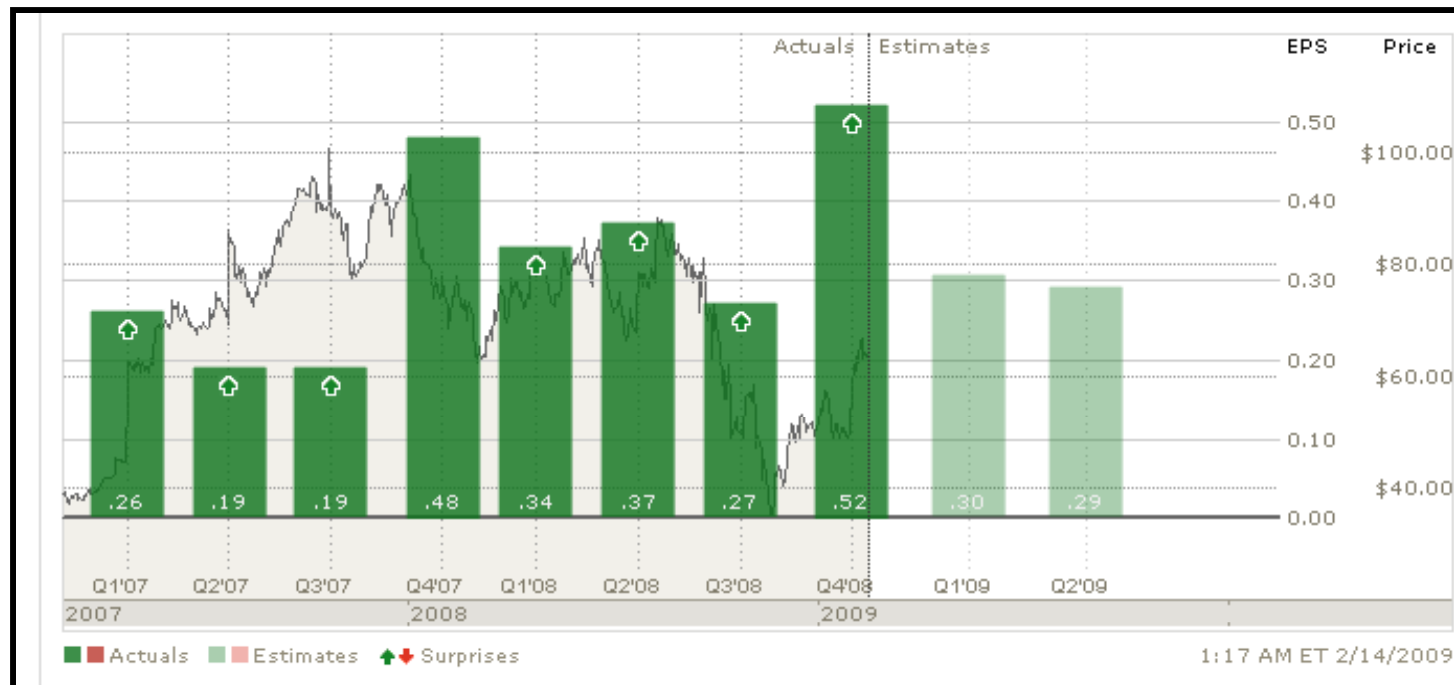
Relative Performance

CAN SLIM Performance 1998 - 2005



C = Current Quarterly EPS

- Bottom line - major % increase in EPS (25% or more)
- Should be supported by sales growth (revenue)



C = Current Quarterly EPS

Cisco Systems – EPS gains of 150% and 155% in 2 quarters prior to 1467% run-up over next three years

AOL – EPS gains of 900% and 283% before rising 557% in 6 months

Dell – 74% and 108% before rising 1780% in 27 months in November 1996

A = Annual Earnings

- Annual earnings growth 25% or more over past 3-5 years
- ROE at least 17% or higher

Valuation		Financial Strength	
P/E excluding extraordinary items (TTM)	42.4x	Current Ratio (MRQ)	1.30
P/E Normalized (MRFY)	42.4x	Quick Ratio (MRQ)	1.00
P/Sales (TTM)	1.4x	LT Debt/Equity (MRQ)	0.15
P/Tangible book (MRQ)	12.1x	Total Debt/Equity (MRQ)	0.18
P/Cash Flow (TTM)	28.1x	Payout Ratio (TTM)	0.00
Management Effectiveness		Growth	
Return on Assets (TTM)	8.8%	Sales (5Yr)	29.5%
Return on Equity (TTM)	33.3%	Earnings Per Share (EPS)(TTM)	33.0%
Return on Investments (TTM)	20.6%	Dividend Growth (5Yr)	--

N = New products, management, highs

Xerox

earnings growth rate 32% before soaring 700%
in 1963-1966

Wal-Mart

43% annual EPS growth before rocketing
11,200% from 1977 to 1990

Cisco (257%) and **Microsoft** (99%)

N = New products, management, highs

Takes something new to produce startling advances in price of stock (ideas, products, services, etc.)

Apple
Abercrombie
Cisco
Charles Schwab
Taser
Sunpower

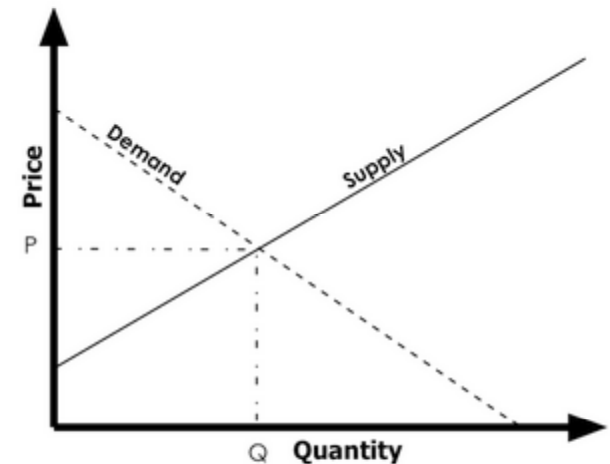


S = Supply and Demand

- Law of supply and demand determines price of almost everything

This is where technical analysis comes into play

Want to buy stocks that are being bought by institutions (importance of volume)



L = Leader or Laggard

- Narrow down selection to best industries / sectors of stock market
 - Narrow further by selecting best companies in the industry
- Best doesn't mean
 - the biggest or
 - most well-known

L = Leader or Laggard

New leaders every cycle

1999-2000	Tech, Telecom
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2002-2004	Real Estate, Energy, Retail
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2004-Present	Commodities
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Look for companies that withstand downturns in market the best

Criteria:

Earnings / sales growth, ROE, margins, etc.

I = Institutional Sponsorship

- Want to own stocks significantly owned by top institutions
- Institutions: mutual funds, pension funds, hedge funds, banks, universities
- Can account for up to 70% of trading activity



Morgan Stanley

I = Institutional Sponsorship

Individual Investors

- You
- Me
- Parents
- Uncle Joe



Institutional Investors

- Mutual Funds
- Hedge Funds
- Pension Funds
- Educational Institutions
- Bank Trusts

I = Institutional Sponsorship

Altria Group Inc. (MO)

MORE ON MO


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Major Holders

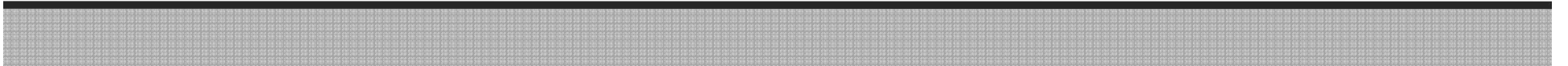
BREAKDOWN	
% of Shares Held by All Insider and 5% Owners:	0%
% of Shares Held by Institutional & Mutual Fund Owners:	74%
% of Float Held by Institutional & Mutual Fund Owners:	74%
Number of Institutions Holding Shares:	943

MAJOR DIRECT HOLDERS (FORMS 3 & 4)		
Holder	Shares	Reported
SZYMANCZYK MICHAEL E	940,127	11-Feb-09
CAMILLERI LOUIS C	753,664	28-Mar-08
BERAN DAVID R.	365,221	11-Feb-09
WALL CHARLES R	382,283	28-Mar-08
NELSON JOHN R.	299,171	11-Feb-09

M = Market Direction

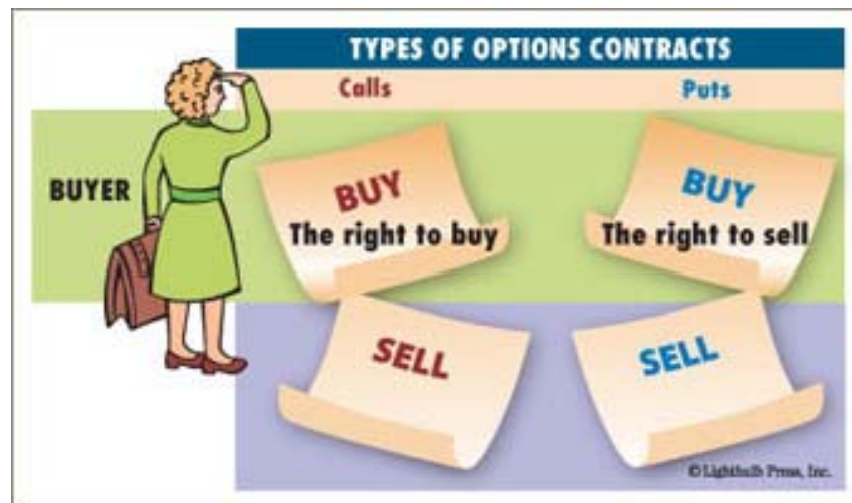


Options



Options

- Among the riskiest investment options
- Directional bets on the future
- Often used as insurance
- All or nothing



Strike Price

Calls

Symbol LastTrade	Last	Net Change	Bid/Size	Ask/Size	Volume	Open Interest
.BWDBS 1/13/09	0.05	0.00	0.00/0	0.05/1,572	0	271
.WFCBR 2/13/09	8.80	0.00	8.20/797	8.40/160	0	521
.BWDBF 1/30/09	0.05	0.00	0.00/0	0.05/1,572	0	26
.BWDBL 1/30/09	0.05	0.00	0.00/0	0.05/1,599	0	120
.WFCBB 2/13/09	5.90	0.00	5.80/10	5.90/1,071	0	305
.WFCBS 2/13/09	3.70	0.00	3.40/1,741	3.60/1,856	0	8,063
.WFCBP 2/13/09	2.33	0.00	2.15/943	2.25/74	0	2,712
.WFCBC 2/13/09	1.60	0.00	1.45/807	1.55/15	0	18,787
.WFCBF 2/13/09	0.95	0.00	0.90/1,201	1.00/1,696	0	10,439
.WFCBT 2/13/09	0.40	0.00	0.40/1,832	0.45/10	0	32,786
.WFCBY 2/13/09	0.15	0.00	0.15/0	0.20/0	0	22,762
.WFCBD 2/13/09	0.10	0.00	0.05/2,179	0.15/1,518	0	58,026

Puts

Symbol LastTrade	Last	Net Change	Bid/Size	Ask/Size	Volume	Open Interest
.BWDNS 2/3/09	3.42	0.00	3.60/1,156	3.80/1,268	0	104
.WFCNR 2/13/09	0.04	0.00	0.00/0	0.05/2	0	15,423
.BWDNF 2/13/09	4.60	0.00	4.60/1,156	4.80/1,274	0	119
.BWDNL 2/13/09	5.80	0.00	5.60/1,625	5.80/934	0	33
.WFCNB 2/13/09	0.05	0.00	0.00/0	0.05/200	0	43,583
.WFCNS 2/13/09	0.20	0.00	0.20/100	0.25/1,889	0	51,707
.WFCNP 2/13/09	0.35	0.00	0.40/86	0.45/3,030	0	41,834
.WFCNC 2/13/09	0.71	0.00	0.70/57	0.75/2,021	0	68,560
.WFCNF 2/13/09	1.15	0.00	1.10/2,029	1.20/1,862	0	15,837
.WFCNT 2/13/09	2.15	0.00	2.10/11	2.20/888	0	37,941
.WFCNY 2/13/09	3.20	0.00	3.30/398	3.50/1,107	0	9,199
.WFCND 2/13/09	4.09	0.00	4.20/1,699	4.40/1,670	0	52,270

Fallen Victims

LEHMAN BROTHERS



WELLS
FARGO

BEAR
STEARNS

HSBC 

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Visual Demonstration

