

## Hoosier Dispatch: Getting Started at Stock-Picking, Part I

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If you're a stock beginner who wants to make steady progress over the long run and just needs some help getting going, read on. I'm not offering some kind of quick-fix, hot-tip, top-10 pulp here. Think of it as a basic set of carpentry tools and a simple blueprint that that should help you acquire the skills you'll need to build a portfolio. Best of all, the techniques I'll give you are usually free and totally accessible to anyone with an Internet hook-up and a good public library. That said, let's dig in.

### *Value Line*

Your first step in the stock-picking process: *Value Line*.

Now I'll admit, *Value Line* isn't exactly a gold-nugget industry secret that gets people salivating with anticipation like a juicy cut of inside information, but hey, you've got to start somewhere. Besides, VL covers a huge number of stocks with a consistent methodology that can help eliminate the worst losers up front and narrow the field for some serious scrutiny. In addition, its rankings for timeliness and safety are pretty reliable. And the commentary tends to be objective and insightful, with more gray matter backing it than the entire staff of *Money* magazine has put together.

At any rate, I'm a firm believer in delegating most, if not all, number-crunching to the geeks sequestered in back rooms at research publishing firms with brains wired for that sort of thing. Who am I to impinge on their livelihood?

You can get *Value Line* online (for \$\$) at [www.valueline.com](http://www.valueline.com). There's a Windows version and you can download updates via the Web each week. But it's not a bad idea to withdraw from the Web momentarily and visit your local library when you're getting started.

Page through the bulky binders, get used to the format and even read the explanation on their ranking system if you're so inclined. Then copy two pages in the front section (usually updated weekly): a table of all stocks ranked "1" or "2" for timeliness, and a list called "Timely Stocks in Timely Industries."

## *Investor's Business Daily*

With fresh copies in hand, it's now time for *Investor's Business Daily*. You can pick this up at the newsstand, but while you're in the library, just make your way over to the periodical section. Pick up the latest copy, and look up the first stock listed on your *Value Line* Timely Stocks in Timely Industries page in the IBD stock tables.

You'll notice a couple of extra numbers that don't appear in *The Wall Street Journal*, *USA Today* or *The New York Times*. They're labeled EPS and RS, standing for "Earnings Per Share" and "Relative Strength." Explanations are provided right there in IBD. If you want more detail, pick up the publisher's book called *How to Make Money in Stocks* by William O'Neil.

Suffice it to say, these are O'Neil's own proprietary figures that rank stocks from 1 to 100 based on their earnings growth history and price performance relative to the market – arguably, two of the most important factors to consider when researching stocks.

Next, write the two numbers down on the *Value Line* Timely Stocks in Timely Industries page, next to the stock name, and do the same for the rest of the stocks on the page. When you're done, cross out all of the stocks that don't have at least a 90 EPS and 80 RS. If you have fewer than 10 stocks left, continue the process with your other VL sheet, Timely Stocks, until you've got a good list.

Believe it or not, you've just screened the universe of stocks using two independent services with a heavy weighting on earnings growth, which I call the "momentum screen."

### P/E Ratio

"But what about the P/E ratio?" the old-school cronies scream from their musty chambers, waving a tattered copy of *Graham & Dodd's Security Analysis*.

I just haven't seen anything compelling to lead me to believe that the P/E ratio alone is an indicator of anything besides the ratio of price to earnings for a particular company. I've seen all kinds of low-P/E stocks languish for years (take Chrysler, for example, at a P/E of 8 with a price hovering in the mid-30s since early '96).

I'll admit that a low P/E stock with high earnings GROWTH could be poised for a move, but since we're already looking at earnings growth, who cares? For me, focusing solely on low-P/E stocks rules out some significant players that deserve a look. Besides, I use other methods to ensure that a stock isn't "overvalued," like chart patterns. That's the technical side of the screen, and it's where we'll pick up in Part II.