


Stock Selection Mastery

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 November 2nd 2003



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To Be Successful in the Sharemarket YOU MUST:

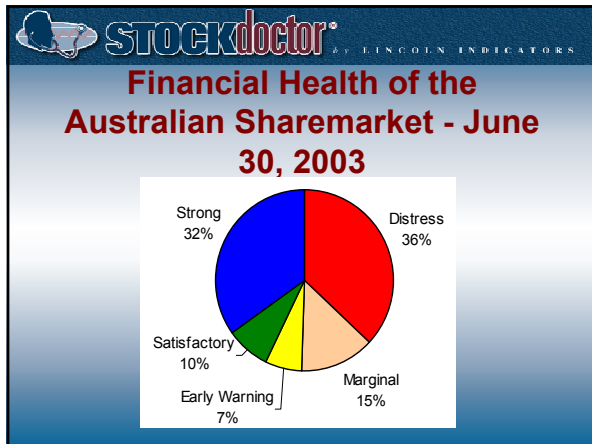
- Have *Passion and Desire*
- Be *Hungry for Knowledge*
- Have a *Long-term Focus*
- *Believe* that you can do it!
- Be *Disciplined*
- Have *Balance and Time*



Sharemarket Performance

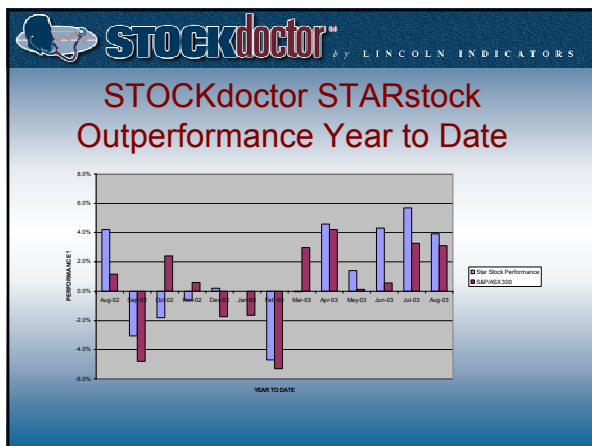
Percentage Returns at December 31, 2002	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr	30 Yr
Australian Shares	-8.5%	1.4%	6.2%	10.7%	14.0%	12.2%
International Shares	-27.1%	-12.3%	1.0%	8.8%	14.4%	12.4%


Australian Market
 Less volatility, low inflation, low interest rates,
 sound economy - Great environment for the
 Sharemarket going forward



How can you significantly outperform the market?

- Take Control and Do it yourself
- Ensure that you focus on and invest in **Financially Healthy** companies with **Great Management Teams**





Fundamental Analysis allows you to understand the Financial Health of companies & Quality of Management

- Dr Merv Lincoln's methodology
- Measuring financial risk for 15 years
- STOCKdoctor software product and IDPS
- Independent and objective analysis



9 Golden Rules

- 1 **Financial Health**
- 2 **Management Assessment**
- 3 **Share Price Value**
- 4 **Liquidity / Volume**
- 5 **Share Price Trend / Sentiment**
- 6 **Market Cap / Size**
- 7 **Company Activities**
- 8 **News / Announcements**
- 9 **Follow the above rules**







Golden Rule 1 - Financial Health

- Assessment of a company's financial accounts
- Calculate key accounting ratios
- Apply weightings based on industry, size, structure
- Determine risk / health
- Do this on 1300 companies twice per year





**Golden Rule 2
Management Assessment** 

Consistently Healthy over a number of years with:

Return on Assets (ROA) > 8% increasing


*Earnings per Share (EPS) Growth > 8% over last 18 months


*Not part of STARstock selection criteria but is used as part of investment selection process

OR

Recovery in Financial Health

Financial Health improving via increased profits, not via equity
Due to recovery, may not meet ROA or EPSG criteria



**Golden Rule 3
Share Price Value** 

Price Earnings Ratio (PE)

PE < Industry Group Average.

OR

PEG Ratio

If PE Ratio > Industry group average then PEG ratio < 1.



**Golden Rule 4
Liquidity / Volume** 

- Avoid thinly traded stocks
- Stock should be traded everyday unless justified reasons for no trade eg suspended
- Average \$ traded per day should at least match your exposure level

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Golden Rule 5 Share Price Trend



- Never buy when price is screaming down hill
- Look at historical weekly trend to confirm positive market sentiment. If some volatility understand why
- Buy when a distinctive positive trend forms and only when all previous Golden Rules are in place

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Golden Rule 6 Market Cap / Size



- What suits your profile
- Large - less risk, more trade
- Small - high volatility, less trade

Small = \$1m - \$200m Medium \$201m - \$1000m
Large = \$1001m +

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Golden Rule 7 Company Activities



- Assess what the company does
- Future market acceptance
- Established / new technology
- Monopoly / competitive
- Do you believe in what the company does and its future?
- In current market, you may wish to avoid high risk/ under performing sectors like Telco's and Biotech's



Golden Rule 8 Announcements



- Positive Share Price Trend is obviously good when price is trending up
- Negative can be severe if major profit downgrade and will effect STARstock rating. This would be a sell signal. More research required.




Share Price & Financial Risk

- Traditional view :

~~HIGH RISK = HIGH RETURN~~

- Low risk, well managed healthy companies that meet all of the Golden Rules offer superior returns and allow a good nights sleep.



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