Investment Forum Program for Wednesday, September 29 at 11:45

Less Is More: During last week's session, the PEG Ratio was introduced. It is defined as the price-to-earnings ratio divided by the earnings growth rate. It is a screening tool for <u>starting</u> research on stocks. Stocks with PEG ratios of one or less are considered to be of interest for further research and those with PEG ratios of two or greater are considered at risk of being fully priced. Thus, the lower the PEG ratio, the greater the chance that a stock is not overvalued. *Dow Theory Forecasts* uses this metric as one parameter in their proprietary methodology and published a screen of value stocks that included PEG ratios in its September 20 edition. Even though many stocks have modest P/E ratios, finding attractive stocks with low PEG ratios is fairly difficult because earnings growth projections tend to be modest for many stocks. Stocks with attractive PEG ratios include Chevron (CVX), Hewlett-Packard (HPQ), IBM (IBM), and Microsoft (MSFT).

Cash: Even though the earnings outlook for many stocks is modest, many companies are sitting on large amounts of cash. Properly deployed, cash hoards can benefit shareholders. The same four companies listed above are also cash rich. Others include Cisco (CSCO), Intel (INTC), Goldman Sachs (GS), and Morgan Stanley (MS).

Sectors: Big Tech is thoroughly out of favor. While it ain't what it used to be, it still packs loads of value if only corporate managers would share a bit more of it with stockholders. Meanwhile, there once was a whole theory of investing that was predicated on buying quality stocks when they are out of favor.

Strategies: Are high quality firms also high-quality investments? *Morningstor.com* posed this question in a recent online article. Quality does not lend itself to a single simple definition. But, *Standard & Poor's* helps individual investors by assigning a quality ranking to each stock it follows. The answer to the rhetorical question posed above is in the affirmative for two reasons: (1) several academic studies have shown that high-quality stocks—in the aggregate and over time—do provide better returns than low-quality stocks by a small, but significant, margin. (2) High quality stocks provide shareholders—especially retirees—with greater peace of mind than low-quality stocks and thus are more likely to be held during market downturns and may help avoid untimely emotional selling.