

CHAPTER 7:

STEP 4: THE CALCULATION ELIMINATION PROCESS

Well done - now comes the part where you need to eliminate further stocks using some simple calculations.

Elimination 1: All stocks that have a rate of return ratio of greater than 3.0. or a dash.

$$\frac{\text{PE Ratio}}{\text{Closing Price}} = \text{Rate of Return Ratio}$$

Reason: it has been proven by analysts that a stock with a rate of return that is greater than 1.0 is over valued, so ultimately we are looking for a stock that is under 1.0, however as there are very few stocks that fit this criteria, I suggest you go up to 3.0 as this will give you a bigger range of stocks to later choose from.

Elimination 2: All stocks that have a % recovery of less than 30% and more than 70%

$$\frac{(\text{Closing stock price} - \text{Year Low})}{(\text{Year High} - \text{Year Low})} = \% \text{ recovery}$$

Reason: it has been proven by analysts that when a stock reaches 33% recovery from it's year low, it is usually healthy enough to begin climbing. Up to 33% it is still a little vulnerable and may take sometime to regain it's health. If it has passed the 70% mark, it may have already reached it's peak in climbing, and won't have much more to move.

Stock Name	Closing Stock Price	Year High	Year Low	% recovery	PE Ratio	Volume yesterday	Rate of return (PE ratio/stock price)
Delloyd	1.01	1.22	0.90	34%	1.9	256	1.9
HumeInd	0.99	1.90	0.73	22%	4.3	157345	4.3
Shell	0.97	1.07	0.90	41%	4.4	5256	4.5
Subur	1.04	1.10	0.88	73%	2.5	10987	2.4
Supermx	1.15	1.40	0.62	32%	2.9	432	2.5
WTK	1.31	1.45	1.02	67%	2.1	430	1.6

So your final stock list should look like this: *(If you find you have no stocks left after the elimination process, you may have to consider a different price stock and start again)*

Stock Name	Closing Stock Price	Year High	Year Low	% recovery	PE Ratio	Volume yesterday (00)	Rate of return (PE ratio/stock price)
Delloyd	1.01	1.22	0.90	34%	1.9	256	1.9
Supermx	1.15	1.40	0.62	32%	2.9	432	2.5
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You are now ready to move onto Step 5.