

Responsibilities of a Stock Watcher

Created by Lynn Ostrem
Crow River Investment Club

www.bivio.com/crowriver

Welcome to this education presentation for the Crow River Investment Club.
Today's session covers the responsibilities of a stock watcher.

From our New Member Prospectus:

- ◆ “By pooling our funds, the club is able to diversify its stock holdings more easily than an individual investing on his or her own.
- ◆ And by pooling our talents, the task of researching companies can be split up among club partners.”

Your Job as Stock Watcher:

- ◆ Most important job in the club. Why?

- ↳ Because YOUR recommendations not only influence whether or not YOU make or lose money...

- ↳ They affect whether or not the rest of us make or lose money.

Your job as Stock Watcher is no doubt the most important job to hold in the club. Why? Because your recommendations not only influence whether or not YOU make or lose money...They affect whether or not the rest make or lose money.

Getting Started:

When we originally purchased our stocks, we looked for 3 things:

- ↪ Good strong fundamentals;
- ↪ Good future growth prospects; and
- ↪ And an attractive price.

So how do we get started? Well, when we originally purchased our stocks, we looked for 3 things:

Good strong fundamentals;
Good future growth prospects; and
And an attractive price.

Why Update?

- ◆ To make sure the fundamentals haven't changed;
- ◆ To make sure the stock is growing at the rate we intended; and
- ◆ To determine whether we should buy more or sell our position.

So it would make sense that the reason why we update will be:

To make sure the fundamentals haven't changed;

To make sure the stock is growing at the rate we intended; and

To determine whether we should buy more shares or sell our position.

Initial Work:

When you are first assigned a company –

- ◆ Order an Investor's Packet
- ◆ Download investor materials from the web
 - Annual report
 - 10K
 - Proxy Statement (Schedule DEF 14A)
 - Quarterly reports (10Q) since last 10K

Initially, when you are assigned to follow a stock, you need to bring yourself up to date on that company. I recommend that you start by ordering an Investor's Packet from the company's website. You can do this from the company website. It comes with the usual fare—the Annual Report, 10K, 10Qs, and Proxy Statement, but it can also come with analyst research reports, articles on the company and/or industry, and in some cases like Hershey or Wrigley, it can come with yummy products or coupons for products.

If you prefer to do things on computer, you can start a folder and download these materials directly from the company's website. Most word processing programs, and Adobe Acrobat have a highlighting tool that comes in very handy when you are looking to single out certain items as you read.

Initial Work:

- ◆ Before you start, read our “Researching Stocks...The Other 20%” guidelines (on our website).
- ◆ Make a Hot List of the items you wish to follow:
 - Current goals
 - Future guidance
 - Legal or other negative influences
 - Look for metrics specific to this company or industry

Before you start, read our “Researching Stocks...The Other 20%” guidelines. It’s on our website under Education. This guide will give you a refresher as to what to look for when reading all this material.

Then, make yourself a hot list of items that you will be following on this company.

The point here is to prepare yourself to follow this company. If our quarterly updates are suppose to tell us what has changed since the last report, it will be imperative to have a baseline so you know when those changes occur.

Initial Work:

- ◆ Get to know the company website
- ◆ Listen to past conference calls
 - Company website or Earnings.com
 - Transcripts on SeekingAlpha.com
- ◆ Set up Alerts for news & press releases
- ◆ Set up a calendar for conference calls and Value Line releases
- ◆ Finally, do your own Stock Selection Guide analysis. Do you concur?

Spend some time on the company's website. Get to know who they are and what they do. Listen to past conference calls. You can find them on the company website or at earnings.com. You can also look for the transcripts on seekingalpha.com. They don't follow every company in the S&P 500, but the ones they do are free.

Make your job easier by setting up alerts, either on the company website under "contact us", or on Yahoo Finance or other financial websites. As news occurs, it will come directly to you. Also consider setting up a calendar for your quarter end, conference calls, and Value Line releases. Or, print the Quarter Stock Report Schedule under Club Documents on our website.

Finally, after you have done your initial review, do your own Stock Selection Guide using the information you've accumulated. Do you concur with the original report? Do you feel the club should make some judgment changes? If so, bring them to the next meeting, along with your reasons.

When do we Update?

1. Monthly – we update the Price
2. Quarterly – we update Sales, Pre-Tax Profit, Earnings and Taxes; listen to conference calls & update club
3. Annually – we update our judgments based on the annual report
4. Whenever a material event changes our numbers – stock splits, restatements, acquisitions, divestitures, etc.

We update our Stock Selection Guides (and club reports) on 4 occasions. [see screen]

Our Monthly Responsibility:

- ◆ Price Update – Allows us to review the Value Criteria such as Upside/Downside Ratio, Relative Value and Potential Return.
- ◆ Review News: Start an ongoing file or document on issues to be discussed by club from the Value Line or other analyst reports.

Really, updating the price on your own Stock Selection Guide and reviewing the value criteria are the only actions required on a monthly basis. The portfolio Manager will update the club's SSG and the price for the club reports.

As you decipher the news or new analyst reports, pay close attention to changes in company or analyst upgrades and downgrades, as well as debt and shares outstanding. Do they need to be added to your hot list?

Our Monthly Responsibility:

Just click
and go!

Toolkit 5 Home Page

Investor's Toolkit 5 HOME

Requires Attention

- Update Prices
- Update Data
- Incomplete SSGs

What do I do now?

- Stock Selection
- Stock Comparison
- Portfolio Management

Portfolio Report Card

| Portfolio | I/D Ratio | Return | Value |
|---------------|-----------|--------|-----------|
| Club Holdings | 2.8 | 15.8 | 16,642.83 |
| Watch List | 3.3 | 16.8 | 285.88 |

*Items in Red indicate need for Portfolio Management

To update the price, simply click here.

Our Quarterly Responsibility:

- ◆ Watch for the quarter press release
- ◆ Update & review your Stock Selection Guide
- ◆ Add/Delete items you are watching, or have questions about
- ◆ Listen to the Conference Call
- ◆ Complete the report form for the Club
- ◆ Post your report on our club's message board no later than 48 hours before the meeting

If you have set your alerts, you won't have to watch and wait for the quarter press release. It will come to you. As soon as it does, you should update and review your Stock Selection Guide. Look for anything abnormal, like unrealistic sales, EPS, PTP or tax figures. Also note the trends. Which direction are they heading? You can see them on the Pert A or the Pert A graph.

Also review your sources for news and events, and make note of any problems or questions you may have.

Next, listen to the conference call. This is where you will most likely get your questions answered. While some people prefer to read the transcripts, the paper version doesn't always cover the most important and most informative portion of the call—the Analyst Q&A. Skipping the call could keep you from learning something that could save or earn our club money. Be diligent.

After the call, you need to fill out the quarter report worksheet found on our website under Club Documents. Then post it on the club's message board no later than 48 hours before the meeting at which it's due. I recommend that you commit to handling this task within a week of the earnings release. Post it while it's fresh.

Our Quarterly Responsibility:

Just click
and go!

Toolkit 5 Home Page

Investor's Toolkit 5 HOME

Requires Attention

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| Club Holdings | 2.8 | 15.8 | 16,642.83 |
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To update the quarter information on all stocks automatically, click here...

Our Quarterly Responsibility:



Just click
and go!

| | | |
|---|---|-------------------------------|
|  NATIONAL ASSOCIATION OF INVESTORS CORPORATION NAIC INVESTMENT EDUCATION FOR INDIVIDUALS AND CLUBS | Stock Selection Guide | |
| | FY 2007 Q1 (Ended 3/31/2007) RECENT QUARTERLY FIGURES | |
| | SALES (\$M) | EARNINGS PER SHARE (\$) |
| Latest Quarter | 258.5 | 0.42 |
| Year Ago Quarter | 230.6 | 0.36 |
| Percentage Change | 12.1% | 16.7% |
| <small>See Chapters 8, 9, and 10 of the BetterInvesting Official Guide for complete instructions. Use this Guide as working section of BetterInvesting Stock Selection Guide & Report.</small> | | |

If you want to update an individual Stock Selection Guide, click [here](#).

However, if the quarter information on the front of the Stock Selection Guide doesn't show the most recent quarter end, it's because the data service (in our case Hemscott data through StockCentral.com) is waiting for the formal 10Q to be released by the SEC. Since we want the most current information for our upcoming meeting, you will need to enter this information on your personal SSG by hand, then send a note to the Portfolio Manager with the updated figures.

Do you see all 4 boxes?

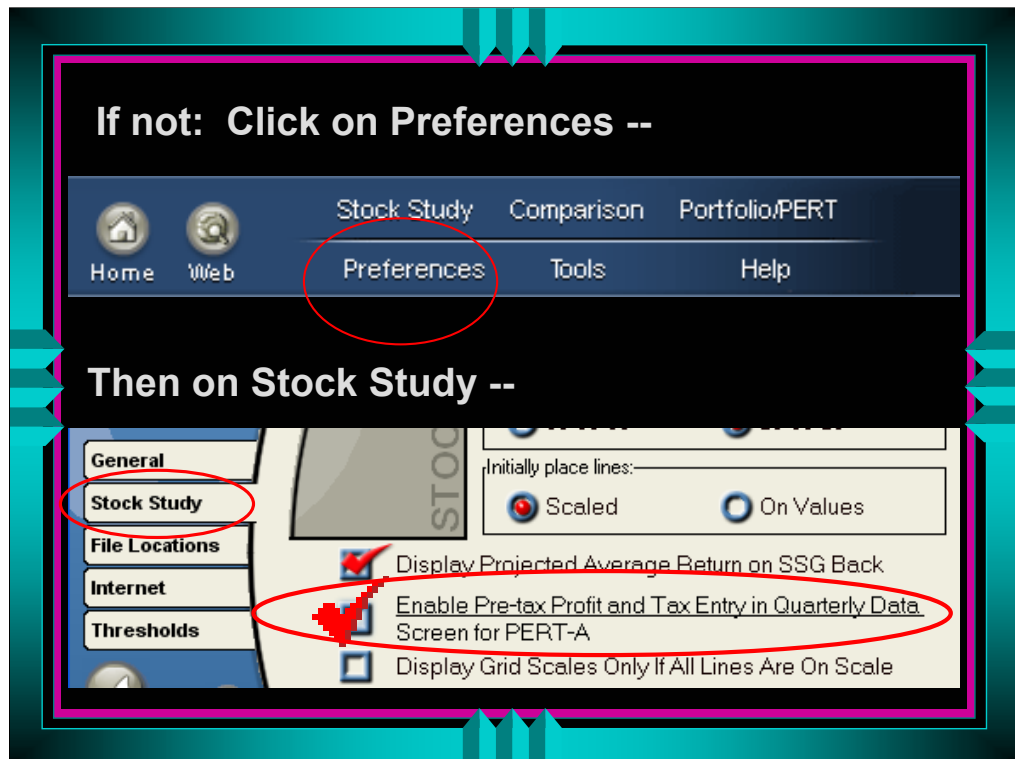
Data for: WELLS FARGO & CO

BASIC DATA | ANNUAL DATA | **QUARTERLY DATA**

Last Quarter of Data: 1st Quarter FY 2007

| Quarter | Sales | EPS | PTP | TAX \$ |
|------------------------------|---------|------|----------|----------|
| 1st Quarter FY 2006 (Mar 06) | 8,122.0 | 0.53 | 3,048.00 | 1,021.00 |
| 2nd Quarter FY 2006 (Jun 06) | 8,357.0 | 0.62 | 3,181.00 | 1,075.18 |
| 3rd Quarter FY 2006 (Sep 06) | 8,321.0 | 0.64 | 3,240.00 | 1,085.40 |
| 4th Quarter FY 2006 (Dec 06) | 8,687.0 | 0.64 | 3,276.00 | 1,094.18 |
| 1st Quarter FY 2007 (Mar 07) | 8,726.0 | 0.66 | 3,200.00 | 1,040.00 |

First, click on Data, then on the Quarterly Data screen. Do you see all 4 numbers required for the quarter update? If you only see Sales and EPS. Do the following...



At the top of your Toolkit program, click on Preferences, then on Stock Study.
Place a check mark in the box that reads “Enable PTP & Tax Entry on the Quarterly Data Screen for Pert A.”

Now you will see 4 boxes!

Data for: WELLS FARGO & CO

BASIC DATA ANNUAL DATA QUARTERLY DATA

Last Quarter of Data: 1st Quarter FY 2007

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Then you will see all 4 boxes.

Advance to the correct quarter:



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BASIC DATA **ANNUAL DATA** **QUARTERLY DATA**

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In order to update this screen by hand, you will click on the down arrow in the Last Quarter of Data box. Find and highlight the appropriate quarter.

Advance to the correct quarter:

Data for: WELLS FARGO & CO

BASIC DATA ANNUAL DATA QUARTERLY DATA

Last Quarter of Data: 2nd Quarter FY 2007

| Quarter | Sales | EPS | PTP | TAX \$ |
|------------------------------|---------|------|----------|----------|
| 2nd Quarter FY 2006 (Jun 06) | 8,357.0 | 0.62 | 3,181.00 | 1,075.18 |
| 3rd Quarter FY 2006 (Sep 06) | 8,321.0 | 0.64 | 3,240.00 | 1,085.40 |
| 4th Quarter FY 2006 (Dec 06) | 8,687.0 | 0.64 | 3,276.00 | 1,094.18 |
| 1st Quarter FY 2007 (Mar 07) | 8,726.0 | 0.66 | 3,200.00 | 1,040.00 |
| 2nd Quarter FY 2007 (Jun 07) | | | | |

Enter the updated information from the Press Release

When you do this, a new row of blank spaces appears. Simply enter the information.

Finding Quarter Numbers:

The 4 items we need come from the
Income Statement:

- ◆ Total Net Sales or Revenues
- ◆ Income Before Taxes (Pre-Tax Profit)
- ◆ Income Taxes
- ◆ Diluted Earnings Per Share

[see screen]

From a Quarter Press Release from MSN, Reuters or Yahoo:

Lowe's Reports Record Second Quarter Earnings
20 Aug 2007 (PR Newswire)

| Date | Title |
|------|-------|
|------|-------|

| | |
|----------|--|
| 08/14/07 | Wal-Mart Reports Second Quarter Sales and Earnings |
|----------|--|

If the earnings press release hasn't already come to you, retrieve it from the company's website, Yahoo Finance, or any other news website you prefer.

| | | Three Months Ended July 31, | | |
|--|--|--------------------------------|-----------------|--------|
| | | 2007 | 2006 | |
| Revenues: | | | | |
| Net sales | | \$ 91,990 | \$ 84,524 | \$92.0 |
| Membership and other income | | 1,022 | 906 | |
| | | 93,012 | 85,430 | |
| Costs and expenses: | | | | |
| Cost of sales | | 70,589 | 64,585 | |
| Operating, selling, general and administrative expenses | | 17,130 | 15,741 | |
| Operating income | | 5,293 | 5,104 | |
| Interest: | | | | |
| Debt | | 446 | 387 | |
| Capital leases | | 42 | 69 | |
| Interest income | | (82) | (63) | |
| Interest, net | | 406 | 393 | |
| Income from continuing operations before income taxes and minority interest | | 4,887 | 4,711 | \$4.9 |
| Provision for income taxes | | 1,676 | 1,636 | |
| Income from continuing operations before minority interest | | 3,211 | 3,075 | \$1.7 |
| Minority interest | | (106) | (91) | |
| Income from continuing operations | | 3,105 | 2,984 | |
| Loss from discontinued operations, net of tax | | - | (901) | |
| Net income | | \$ 3,105 | \$ 2,083 | |
| Net income per common share: | | | | |
| Basic and diluted income per common share from continuing operations | | \$ 0.76 | \$ 0.72 | |
| Basic and diluted loss per common share from discontinued operations | | - | (0.22) | |
| Basic and diluted net income per common share | | \$ 0.76 | \$ 0.50 | \$.76 |
| Weighted-average number of common shares: | | | | |
| Basic | | 4,102 | 4,168 | |
| Diluted | | 4,108 | 4,172 | |

If you advance to the bottom of the press release, most of them will give you the income statement and balance sheet items for the quarter. Here is where we get those numbers. And these are the 4 numbers you must send to the Portfolio Manager.

Annual Update:

| BASIC DATA | | | ANNUAL DATA | | | QUARTERLY DATA | | | |
|-----------------------------|--------|--------|-------------|-------|--------|----------------|------------|-----------|-------------|
| Last Full Fiscal Year: 2006 | | | | | | | | | |
| Year | High | Low | EPS | Div'd | Bk Val | Sales | Net Profit | Tax Rate% | Shs Outst'g |
| 1997 | 8.993 | 5.028 | 0.17 | 0.000 | 0.71 | 6,440.2 | 1,048.7 | 44.5 | 6,037.00 |
| 1998 | 17.417 | 7.569 | 0.29 | 0.000 | 1.14 | 8,458.8 | 1,886.9 | 34.7 | 6,250.00 |
| 1999 | 34.625 | 10.281 | 0.38 | 0.000 | 1.79 | 12,154.0 | 2,548.5 | 33.0 | 6,542.00 |
| 2000 | 82.000 | 28.078 | 0.43 | 0.000 | 3.71 | 18,928.0 | 3,198.3 | 38.3 | 7,138.00 |
| 2001 | 70.000 | 13.188 | 0.04 | 0.000 | 3.70 | 22,293.0 | 287.8 | 75.0 | 7,324.00 |
| 2002 | 21.920 | 11.040 | 0.26 | 0.000 | 3.92 | 18,915.0 | 1,936.2 | 30.2 | 7,303.00 |
| 2003 | 19.810 | 8.120 | 0.51 | 0.000 | 4.01 | 18,878.0 | 3,683.7 | 27.2 | 6,998.00 |
| 2004 | 29.390 | 17.420 | 0.70 | 0.000 | 3.84 | 22,045.0 | 4,939.9 | 29.4 | 6,735.00 |
| 2005 | 21.240 | 17.010 | 0.88 | 0.000 | 3.66 | 24,801.0 | 5,818.6 | 27.8 | 6,331.00 |
| 2006 | 22.000 | 16.830 | 0.88 | 0.000 | 3.95 | 28,484.0 | 5,519.4 | 28.5 | 6,059.00 |
| Estimated Tax Rate: | | | | | | | 28.5 | | |

When the data service receives the annual data, it will automatically update the Annual Data page on Toolkit and other IClub programs. You don't have to do this by hand. Simply update the quarterly data, such as the 4th quarter and 1st quarter until the program corrects it.

Annual Update:

Every year, you will also do the following:

- ◆ Read the annual report and other filings
- ◆ Check for an annual conference call
- ◆ Review our judgments
- ◆ Update the list of items you are following
- ◆ Report on our findings to the club and
recommend changes, as needed

At the company's year-end, be it calendar year or fiscal year, it's your job to read the annual report and other filings, check to see if there's a year-end conference call (although most companies cover year-end items in their 4th quarter call), review your judgments on the Stock Selection Guide, update your hot list and report your findings to the club. This can be done on your 4th quarter worksheet.

Material Events:

A Material Event will change our SSGs. Here's an example or two that could cause this:

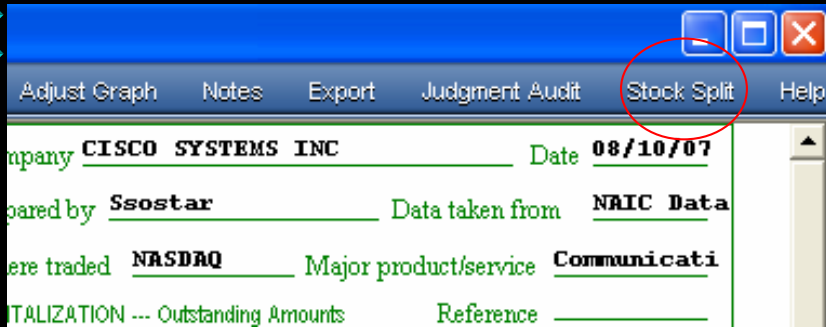
- ◆ Stock Split
- ◆ Restatement of financials
 - ↳ Acquisition
 - ↳ Sale of a division
 - ↳ Accounting error, or
 - ↳ FASB accounting change

As far as material events are concerned, the data service will update the numbers...eventually. Unless the conference call and press release are specific about a number revision, don't worry about updating those numbers for the monthly meeting. The data service will usually rectify them in a couple weeks.

However, if there's a stock split, we will want to know in time for the meeting. This is a simple task.

Stock Split:

When a stock splits, we get twice as many shares but our price is cut in half. We can handle this by clicking here:



Stock splits don't really have value since we get twice the shares for half the value. But investors seem to be enticed by the lower price, sending the stocks higher in the first days of trading after a split. In order to split the stock, follow the Split Stock link on the top right corner of the company's Stock Selection Guide.

Stock Split:



When the Split Box appears, you simply add the split information and click OK.

It will automatically split your current and historical shares, high and low prices and per-share figures.

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Restatements:

| Basic Data | | | | Annual Data | | | | Quarterly Data | | | |
|-----------------------------|--------|--------|------|-------------|--------|---------|------------|----------------|-----|--------|--|
| Last Full Fiscal Year: 2002 | | | | | | | | | | | |
| Year | High | Low | EPS | Div'd | Bk Val | Sales | Net Profit | Rate% | Sts | Outstg | |
| 1993 | 16.444 | 9.185 | 0.46 | 0.000 | 3.25 | 652.3 | 48.9 | 35.5 | | 103.00 | |
| 1994 | 22.445 | 13.333 | 0.55 | 0.000 | 3.92 | 878.5 | 61.6 | 36.4 | | 107.00 | |
| 1995 | 17.333 | 9.833 | 0.65 | 0.000 | 4.60 | 1,042.2 | 72.7 | 34.7 | | 100.00 | |
| 1996 | 12.667 | 7.967 | 0.29 | 0.000 | 5.25 | 1,163.0 | 34.4 | 34.1 | | 116.00 | |
| 1997 | 12.667 | 7.003 | 0.54 | 0.000 | 5.35 | 1,335.3 | 60.5 | 33.5 | | 90.00 | |
| 1998 | 16.417 | 9.083 | 0.68 | 0.000 | 6.00 | 1,574.4 | 68.8 | 34.8 | | 99.00 | |
| 1999 | 20.417 | 10.450 | 0.91 | 0.000 | 6.69 | 1,870.6 | 53.3 | 20.5 | | 93.00 | |
| 2000 | 24.000 | 13.250 | 1.17 | 0.000 | 7.72 | 2,159.8 | 118.0 | 35.0 | | 99.00 | |
| 2001 | 31.300 | 18.833 | 1.42 | 0.000 | 9.05 | 2,473.7 | 145.0 | 34.7 | | 100.00 | |
| 2002 | | | | | | | | | | | |

Estimated Tax Rate: 35.0

Let the data service handle the restatements. They usually update the files within a couple weeks of the announcement – Always accept restatements when Toolkit (or other) asks.

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More Reading:

Find the following articles on our website under Communications|Files|Education Assignments|2007 Educational Materials:

- ◆ Reading the Conference Call Tea Leaves
- ◆ Research by Conference Call
- ◆ 9 Questions to Ask when Reading Proxies
- ◆ 10 Things to Look for in an Annual Report

Here is some extra reading that might make your job easier. You can find it under Education on our Files page.

Questions??

Lynn Ostrem
Crow River Investment Club
www.bivio.com/crowriver