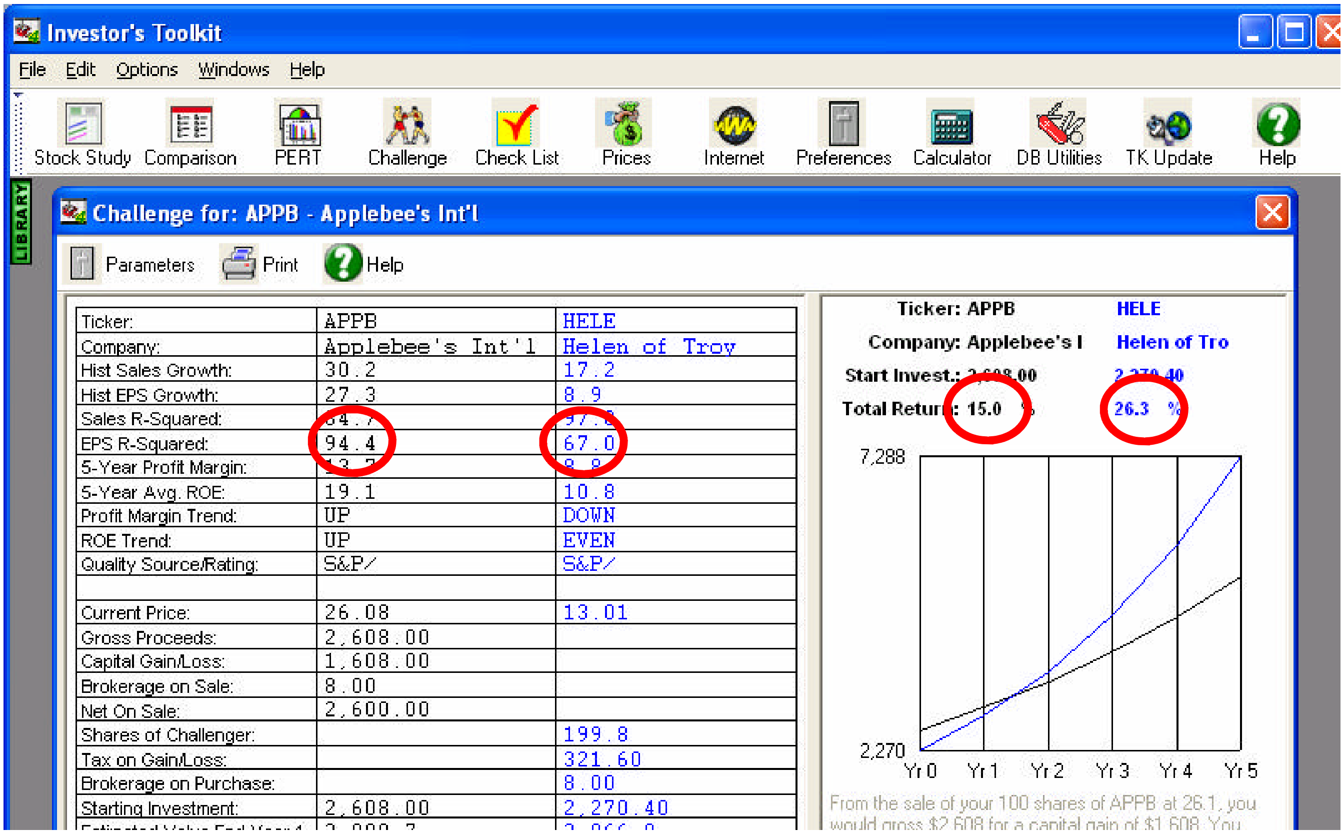
Earnings Stability



R^2 is a measure of how consistent the data is for sales and EPS rates of change.

It is measured from a minimum of zero to a maximum of 1.0 [or 100 %.] The higher the number, the smoother the growth rates lines on the graph in the SSG. The companies with lower numbers have the familiar “sawtooth” pattern. The higher the number, the more confident one can be in predicting future sales and EPS, and by extension, the growth rate of the price of the stock.

In the example above, HELE appears to be the easy choice over APPB, since its predicted total return is over 1½ times that of APPB. However, one’s enthusiasm should be tempered by the lower R^2 [67.0] of HELE. This means one should have less confidence in the lower figure. As you can see on the next page, HELE’s EPS growth rate history has been very irregular. **Key point**: Don’t automatically pick the stock with the higher forecast total return - if past growth has been irregular, the future’s may be also.

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