# Tips, Tricks, & Techniques

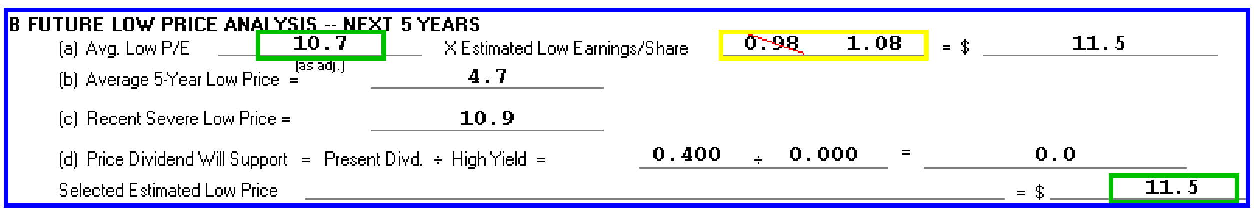
## Forecasting Low Price

Forecasting low price is critical, and a major effect on the reward/risk ["upside/downside"] ratio. even more important than forecasting the high price. The low forecast price can have

Selecting a low price on the Stock Selection Guide can sometimes be confusing. That is because there are six different possibilities in choosing a low price over the next five years. Much of the reasoning which goes into any projection also depends on the personal outlook of the individual doing the study. An optimistic outlook might result in a higher low price.

### Select the Potential Low Price

Just as on the printed **Stock Study**, you are offered a range of potential low prices from which you must select or estimate a potential low price to set the bottom of your "Buy" range.




Clicking within the Select Estimated Low Price green box will open the Judgment – Potential Low Stock Price Selection Window.

**Forecasting Low Price** (continued)

This dialog box offers you the opportunity to either select one of the computed prices or to insert your own estimate. While there are many factors that will contribute to your decision, it may be helpful to consider these general guidelines:

- **Forecast Low Price**: Used most of the time and a good choice for a growth company that does not pay a significant dividend.
- **Average Low Price for Last 5 Years**: Typically used for a cyclical company (e.g., an auto maker). If the stock being studied is cyclical in nature, average low price of the last five years becomes significant. When earnings drop, as they do with cyclical stocks during a downtrend in the economy, the price usually recedes. It is very possible that the price can go down to its average low over the past five years.
- **Recent Severe Market Low Price**: Perhaps used for turnaround situations or for companies for whom disaster is a normal state of affairs—volatile and unpredictable companies.
- **Price Dividend Will Support**: Used for larger companies whose dividends contribute significantly to the stock's total return. This represents a price at which yield is high enough for the stock to commence competing with other income instruments for investors' dollars. If it is a high grade stock with large institutional ownership, or the Price the dividend will support becomes important. When the Price of a top quality stock nears the high yield paid in the past five years, institutions may feel comfortable investing funds because of the dividend. Since the price of a stock is determined by supply and demand, institutional purchases tend to put a platform under the stock price at the point where the yield is attractive. Other influences also come into play like the trend in interest rates or the projection of what those rates may be in the future.
- **Price Variant Quotient**: Determined by considering the ratio of low price to high price over each of the past five years, then projects a low price based upon this average volatility from the current year's high price. Read more about PVQ at [http://naicspace.org/pdf/PVQt6.pdf](http://naicspace.org/pdf/PVQt6.pdf).
- **80% of Current Price**: This price represents what the low price might be if the stock fell 20% from its current level. This may be a useful option in a down market.
- **Other**: Used for your own thoughtful estimate.

**Forecasting Low Price** (continued)

This is the last "must do" item in the Stock Study process. All of the possibilities are still affected by outside sources, inflation, interest rates, taxes, the direction of the economy and the industry outlook.

> One cautionary note: The forecast low price must be lower than the current price. Otherwise you will get a Reward/Risk Analysis (Potential Gain vs. Risk of Loss) ratio of "99.9+"

**Sources**:


1. The Toolkit 6 Manual included with the Toolkit 6 software or available printed from IclubCentral.com. See Select the Potential Low Price in Section 4 – Evaluating Reward and Risk over the Next 5 Years on page 126.
2. Why So Low a Stock Price for Charles Schwab and Merck? From BetterInvesting magazine, November 1992, http://www.betterinvesting.org/Members/Tools/Articles/Archives/PrintMagazine/Archive/1992/11/199211WhySoLowaStockPriceforCharlesSchwabandMerck.htm


Rewritten 31 January 2010 by Philip Crust and Ken Peters to reflect additions and improvements in the Stock Study process provided with Toolkit 6.