BetterInvesting Space Coast Chapter

Tips, Tricks, & Techniques

With every front sheet of the BetterInvesting SSG form you get a free Financial Calculator.

Take out any blank SSG sheet and look at the front side. Consider the vertical lines as representing years from the present at "0" to "14" at the right. Number them as shown in Figure 1. The vertical scale is the ratio of Future Value to Present Value.

For the 1st example consider buying a stock at a present price of $39.00. From your SSG workup you predict that the high price will be $97.50 in five years. Note the ratio of Future Value to Present Value is $97.50 divided by $39.00 or 2.5.. Without consideration of dividends we can show that the Annual Rate of Return will be about 20%.

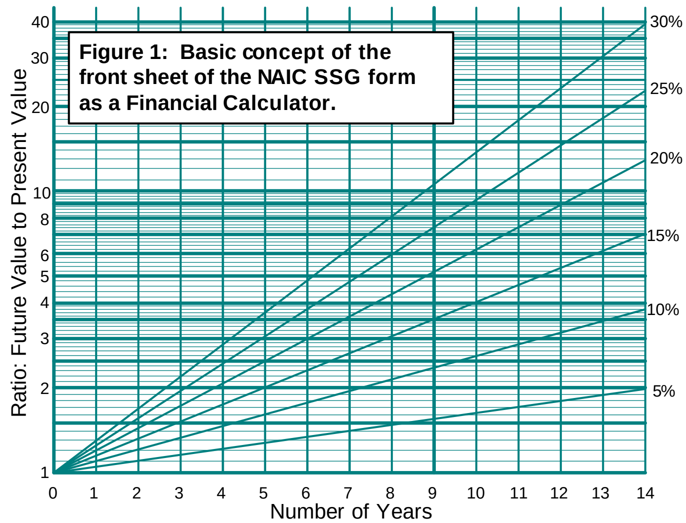

Figure 1: Basic concept of the front sheet of the NAIC SSG form as a Financial Calculator.

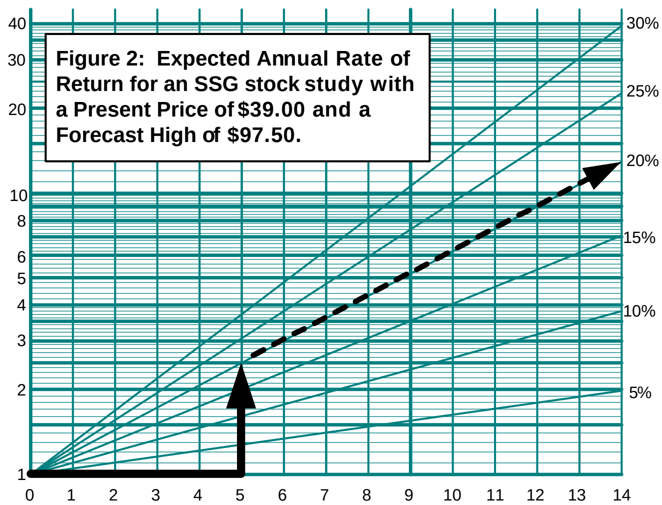

Figure 2: Expected Annual Rate of Return for an SSG stock study with a Present Price of $39.00 and a Forecast High of $97.50.

How did we arrive at that from the SSG chart? Please refer to Figure 2. From the origin at the lower left intersection count 5 years across to the right, then count vertically to 2.5 as shown by the arrow head in the figure. This is on the 20% growth line.
Now you could also say that the stock is hoped to grow 250% in 5 years so we would calculate the Simple Compound Total Growth as:

$$SCG = (250\% - 100\%)\ /\ 5\,years = 150\%\ /\ 5\,years = 30\%$$

You could then use the conversion chart that is found on some NAIC printed forms (back side, lower right corner) to convert the result to Annual Rate of Return. The conversion chart is also shown in the Investor's Toolkit Manual for Version 3 on Page 150. The SSG chart is certainly quicker and less involved.

The Annual Rate of Return for a stock held for a period of time can also quickly and easily be found. Figure 3 is an example. An investment club member claims that his shares of FBN Company have risen 3 time his purchase price in the 11 years that he has held the stock. You can quickly show him that his Annual Rate of Return is only slightly better than 10% per year.

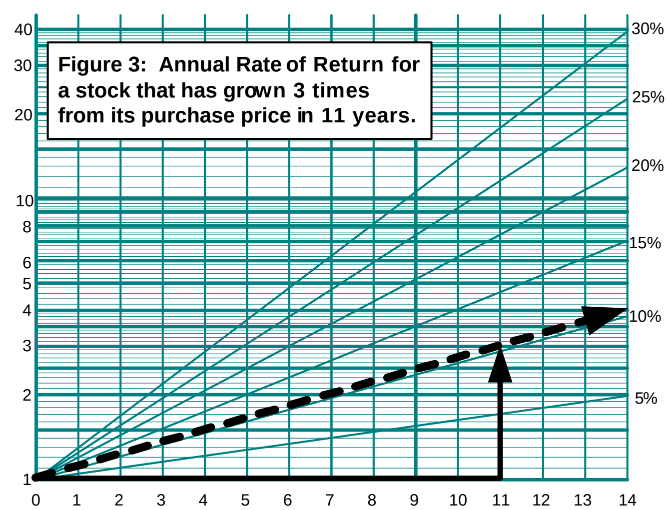

Figure 3: Annual Rate of Return for a stock that has grown 3 times from its purchase price in 11 years.

Example #1: $44,212.50 was spent to purchase Exxon (XON) stock on 13 April 1996. Dividends were reinvested in additional stock as they accrued. On 7 September 2005 the value of this holding was $163,372.01.
In the interveniening 9.4 years, dividends acquired additional shares and Exxon merged with Mobile becoming Exxon Mobile Corp. (XOM).
The Compound Annual Growth (CAG) can be obtained from the SSG Visual Analysis chart. The value grew 163,372.01/ 44,212.50 = 3.7 times in the 9.4 years. The resultant CAG is about 15%. An electronic financial calculator using exact numbers would return 14.9%.

Example #2: $7,727.00 purchased Aflac (AFL) stock on 19 August 1996 and again dividends were reinvested. On 19 August 2005 the value of AFL was $31,570.05.
The value grew 31,570.05/7,727.00 = 4.1 times in the 9 years for a CAG of about 17%.