APPENDIX A

INVESTMENT MAXIMS

> Be aware of the glib advisor offering investment rules.

Having said that, here are some oft-quoted rules of thumb that seem to hold up surprisingly well.

On the relationship between growth and value:

The stock's price-earnings ratio should not exceed the sustainable percentage growth rate. So if the stock is selling at 15 times earnings, you should be comfortable that the company can sustain at least a 15% growth rate.

A good bargain:

Never buy a stock for more than two-thirds of its net quick assets, giving no value to the plant or goodwill.

On dividends:

Buy when a dividend value is two-thirds of the AAA bond yield, but only if the company's debt is less than its equity.

A good company to invest in:

Buy stock in a company with enough in assets so that a bank would lend it an amount equal to its stock market capitalization.

When to sell:

Sell when a stock becomes 50% overvalued based on the rules used to buy it.

When to sell:

Sell when the price has increased 50% or in two years, whichever comes first.

Small companies versus large companies:

For the lay investor, a good collection of smaller companies is usually more attractive than a very big company. It's easier to understand a smaller company and they're more likely to dominate a particular market niche.

The rule of 20s.

A reasonable P/E ratio for the Dow is 20 minus the inflation rate.