to a man who has been nearly much his own way with Newburger Hel-1 then ran his own fund. One of his contemporaries usually said and did the rest of the Wall Street at nearly everyone who

as too theoretical often and survived and pro-testing his own theories to probably unfortunate. It exacty happen yester-Graham left his post of his truly big winners)

's.

been content to live a La Jolla and spending of France. He no longer get any richer?”) And, professional activity of or. “It expresses what I I'm glad to hear that it's

o the Rancho La Costa is something of a rarity. Comparative isolation of of modern institutional f younger money man-good memory,” he says. of being 80 next May—

ial, you know, and my market operations for octogenarian says finally.

The Simplest Way to Select Bargain Stocks

You'd be hard pressed to find anyone more knowledgeable about the stock market and the secrets of latching on to real stock values than Benjamin Graham, a man generally regarded as the dean of security analysts. Not only did Graham co-author a book, Security Analysis, that's become the bible of the business, but his record of picking winning stocks is legendary on Wall Street.

A millionaire at 35, Graham retired to California some time ago. In recent years he's devoted himself to distilling the methods of stock selection he used successfully for nearly half a century into a few easily followed principles. Now 82, Graham has lately gone into association with investment counselor James B. Rea to establish a fund whose investment policy will be based on those principles. Graham believes that a doctor handling his own investments should be able to utilize those same principles to achieve an average return of 15 percent a year or better.

Sitting in the study of his La Jolla oceanfront apartment, Graham outlined the fundamentals of his approach for Medical Economics West Coast Editor Bart Sheridan. Here Senior Associate Editor Laton McCartney gives the highlights of their conversation:

Q. Would you start by telling us how you arrived at the simplified Graham technique?

A. Well, for the past few years I've been testing the results of selecting undervalued stocks according to a few simple criteria. My research shows that a portfolio put together using such an approach would

financial position

the P/E ratio of a stock is an important indicator of the stock's valuation. A higher P/E ratio indicates that the stock is valued more highly than its earnings. A lower P/E ratio indicates that the stock is undervalued.

1. Why does the P/E ratio of a stock vary?
2. How is the P/E ratio important in determining a stock's value?
3. What factors can affect a stock's P/E ratio?
4. How can the P/E ratio be used in making investment decisions?

A. By comparing a stock's P/E ratio to its competitors.
B. By analyzing the company's growth prospects.
C. By looking at the stock's historical performance.
D. By considering the overall market conditions.
1. You mean that I should aim for a 50 percent profit on every stock.
2. Yes, and the results have been very consistent for successive periods.
3. Research.
4. Yes. This is the result you’d have gotten over 50 years according to your
   diaries. Should amount to more than commission.
5. Your investment plus dividends and minus commission. Over that
   time, the investor’s risk is lower profit or even a loss. But in the long run
   to sell it at a smaller profit or even at a loss, you’ll have your
   profit. If you hold a period until the last stock expires, you’ll have
   profit. Obviously you’re not hoping to get 50 percent gain on every stock.
7. Obviously you can expect some of them.
8. Oh, yes. Not nearly as many as the market decline of 1973 and
   some of them.
9. Yes, but there are still plenty, the box on page 49 [Table 9] lists
   P-E of seven of lower.
10. Are there stocks around today that meet this requirement and have
    assets of $50 million and 60 percent or more of their
    stockholders equity of $50 million and onward.
11. Would you give me an example of how the trade worked?
12. What if I had the money when I sell a stock return in
    1978.
13. Well, no better than the end of 1978.
14. For example, if you bought a stock in September 1976, you’d
    pay for the 2 percent. Second quarter year, in the time of printing, 25
    percent of the stock, and then your stock would be 25 percent of the
    stock. Your stock is worth twice its original purchase.
15. What is the company’s earnings after taxes?
16. Simply put, it’s the company’s net worth—the amount left over
17. Almost all, you can easily obtain the figures for total assets and stock.
18. Would you need an account in order to figure that one out?
A SAMPLING OF BARGAIN STOCKS

New York Stock Exchange [See Table 9] [See Table 9]

less and an eighth, assets ratio of 50 percent or more. All are listed on the

The following stocks meet the selection criteria recommended by Ben

A sampling of Bargain Stocks

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1970

William 19% 21% of the 1969 and "the trend of the market as a

A. The investor needs the patience to apply these simple criteria.

B. Can you summarize the key to making your approach work?

C. What was too high?

D. I have no particular confidence in my powers—or anyone else's—

E. Of course it's a matter of the kind of stop that followed the overbought

F. A week or so after the Dow around 1000 and many issues at their five-year highs,

G. Should be prepared to take our the downturn.

H. The five-year period. If we get a repeat of that situation, the investor

I. The Dow.