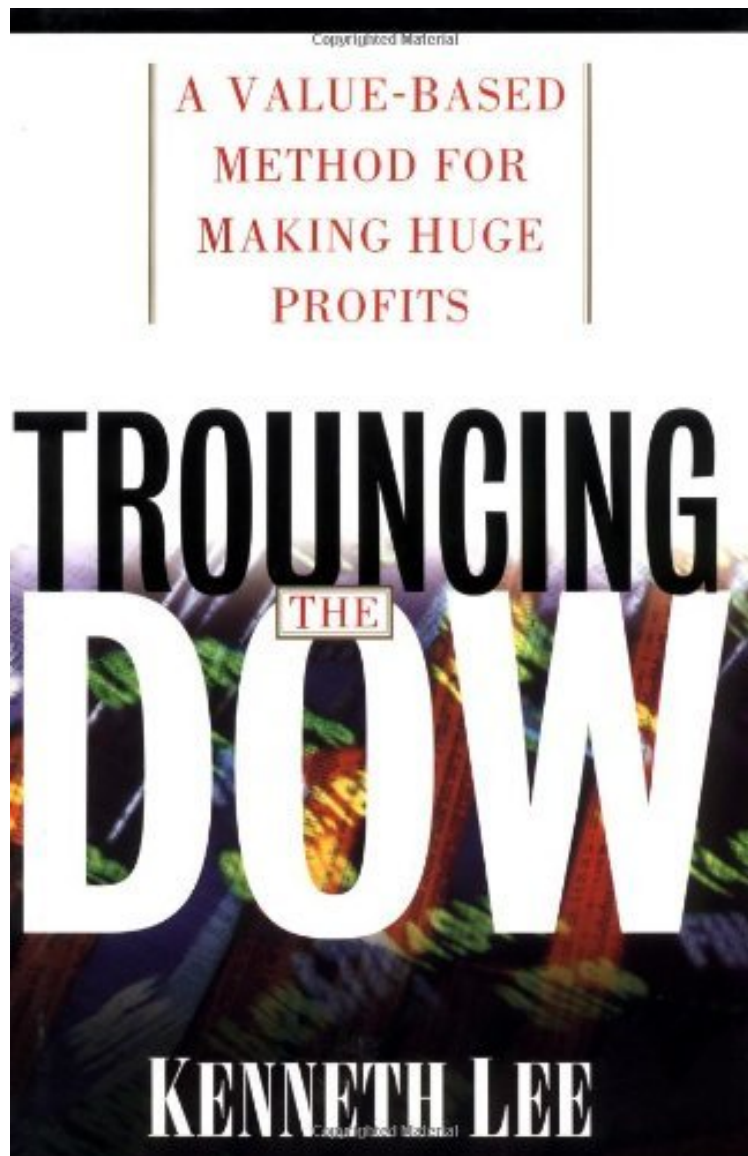


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Trouncing the Dow: A Value-Based Method for Making Huge Profits in the Stock Market

Kenneth W. Lee

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Kenneth W. Lee : Trouncing the Dow: A Value-Based Method for Making Huge Profits in the Stock Market before purchasing it in order to gage whether or not it would be worth my time, and all praised Trouncing the Dow: A Value-Based Method for Making Huge Profits in the Stock Market:

5 of 5 people found the following review helpful. Simple, workable system!By Steven PhillipsAs some other reviews of this book state, there are NO perfect mathematical formulae for selecting investments. No formula can consistently

anticipate all of the myriad changes that can affect a particular issue in the highly fluid, dynamic universe of investments. All valuation formulae are simplistic constructs which are used in the place of an elusive, magical crystal ball to derive either the absolute or relative worth of financial instruments. And all such constructs must be based upon assumptions (which are subject to all sorts of errors)- all of them! Perhaps the most widely-used financial formulae today are based on some variant of discounted cash flow (DCF). But DCF requires selection of an appropriate discount rate, a forecast of future cash flows, and some kind of wild-eyed guess as to the investment's terminal value. Calculations which substitute earnings for cash flow are hopelessly flawed from the outset! Any calculation which uses a forecast is probably "in over its head" before any processing is done. Since we cannot find the perfect formula which will yield calculations of 100% certainty, perhaps we should base our investment philosophy on skilled analyses of financial statements. However, financial statements are also built upon (possibly flawed or outdated) assumptions and conventions, and are hopelessly backward-looking while markets are always forward-looking. Financial information is too stale and is often inaccurate (vide ENRON or WorldCom, etc.). Maybe following news releases would be better. However, because markets are discounting mechanisms, most of the financially important events are already incorporated into the market price before the news is released. Try an experiment: record the breaking news stories, both positive and negative, on any financial news network and see how well the companies and their stock prices perform 30, 90, 180, and 365 days after the news release. On many of the positive stories, you will find that the stock price will sell no, or only marginally, higher on the day of the release, and thereafter. You will often find the converse for negative news releases. Buying on positive- or selling on negative- releases is not likely the way to make consistent profits in the financial markets. Then there is technical analysis, which is often not very technical at all. Last week, a major bank group fired the entire staff from its 45 year-old technical analysis department because the bank's management could not find added value to its overall operations from this department. However, Andrew Lo, et. al., from the Massachusetts Institute of Technology, performed a study on technical analysis over a 30 year period and found that certain indicators provided an incremental benefit to investment returns over the period studied. There may be some utility to be mined from this area. All the above said, Lee's book offers a simple method for selecting undervalued stocks from the universe of the Dow Jones 30 Industrials. Best yet, the raw data is available for free on the Value Line web site. The author uses past data to derive an average benchmark based upon how the issue previously traded against its book value. (Academic research has shown price versus book value to have some predictive ability.) I have performed sample testing on Lee's method and feel that it is useful in providing the average investor a fighting chance in: 1) safeguarding one's capital funds; and 2) earning a reasonable (if not superior) rate of market return. (Superior returns are possible, however I feel very strongly that such superior returns are often the product of sufficient capital, stringent loss control, the direction of the secular trend, selection of the appropriate vehicle, and L-U-C-K.) I believe that Lee's methodology makes sense and is workable for somebody wanting to manage one's own investment funds and understand the process of stock selection. While this method is not perfect and will probably lead to less than perfect results, it will likely provide satisfactory long-term results for the individual investor who doesn't mind crunching his or her own numbers.

0 of 0 people found the following review helpful. An interesting investment approach; worthy of consideration. By rabsparks I have been a Dogs of the Dow investor for several years so Ken Lee's book drew my interest after it became a topic in the Motley Fool website. I enjoyed Mr. Lee's writing style, and the manner in which he explained what some might consider esoteric stock market terms. Indeed Benchmark investing appears to outperform one of the better Dogs of the Dow approaches and does so with less risk. However, the amount of work one must do on a regular basis to determine whether to buy or sell a particular Dow stock is not insignificant and should be done on a monthly basis. (Note: Mr. Lee has indicated that he's working on a website that will provide this information. He hopes to have the site operational in December.) Benchmark investing provides a price range for each Dow stock, showing the low and the high. You buy a stock when its price is below the target low. Determining the "sell point" is not nearly as clear and may cause a Benchmark investor some indigestion, although the author does address this issue in the book. I'd recommend this book for any serious investor who is looking for a relatively conservative approach to equity investing. Interested investors are welcome to email me.

2 of 3 people found the following review helpful. Great guide book for picking Dow value stocks By Steve Burns This is a great book for a value investor. It introduces the benchmark formula for investing in the best values in the 30 Dow stocks each year. It shows the records of how this worked out in real time investing by beating the Dow average in most years. I really enjoyed the discussion of Warren Buffett's strategies of focusing your money on a few great companies and buying those companies at 60 cents on the dollar. The benchmark formula is as follows:

1. Find the average return on equity for the previous ten years.
2. Divide the current year's return on equity by its 10-year average return on equity to find the adjusted ROE ratio.
3. Find the average book value for the previous ten years. Also find the average low and high stock prices for the same period.
4. Calculate the stock's average yearly low price.
5. Find the average low and high market to book values for the previous 10 years. To do so, divide the average low and high prices by the average book value from step 3.
6. Find the downside target by first multiplying the stock's low market to book average multiple by the adjusted ROE ratio. Then multiply that number by its current book value.
7. Find the upside target by first multiplying the stock's high market to book average multiple by the adjusted ROE ratio. Then

multiply that number by its current book value. You then will pick out the stocks trading at under their historical and projected value.

Insights on value investing from a Wall Street superbroker. From 1973 to 1997, the stock market averaged 9% return. Kenneth Lee's "Benchmark Investing" averaged 24%. Value investing may be a hot topic on Wall Street right now, but Lee has been making money with it for nearly a quarter-century. *Trouncing the Dow*, Written in an easy-to-understand style, is packed with step-by-step instructions that show any investor how to be a winner. With returns that rival Warren Buffett and Benjamin Graham, Kenneth Lee carves out his own spot in history with *Trouncing the Dow*.

Of course, a certain kind of investor still prefers a "system" for trading stocks. Thousands have been devised over the ears. They ma work for a short time under certain market conditions, but then they fail. Every now and then, though, someone comes along with a carefully reasoned method that seems to work. Kenneth Lee explains his own in "*Trouncing the Dow*" (McGraw-Hill, 284 pages, \$24.95). (The Wall Street Journal 1998-12-24)"This book outlines a simple investment method that helps investors reach their goals for average annual returns." (Technical Analysis of Stocks Commodities Magazine 1998-12-11)From the Back CoverThe updated edition of this practical guide to site design and development will be invaluable to all civil engineers, architects, and planners involved in land development projects. The book fully examines the political, economic, and construction considerations as well as the physical limitations of any new project. The Third Edition contains expanded information on the use of the computer as an engineering and drafting tool - plus new applications of GPS, GIS, and the Internet. Also featured are new developments in the use of construction materials;heavily revised sections on drainage, site design, and planning;and metric units as the primary measurement system.About the AuthorKenneth Lee is a vice president with Smith Barney, where he manages \$50 billion in client assets. Lee started his career at Merrill Lynch, where he received an award as the top producing new broker in the nation. Since 1989, he has published *DowBuys*, an investment newsletter that focuses on stocks in the Dow Jones Industrial Average.