

Index

- AIM Precious Metals Fund (IGDAX), 196
- American Association of American Investors (AAII), Asset Allocation Survey, 6–7
- Asset allocation, 145–146, 197–208
 - aggressive portfolio examples, 198–199
 - balanced portfolio examples, 200
 - moderate portfolio examples, 199
 - problems with, 197–198
 - return expectations, 201–208
 - theory, 145–146
- Asset management industry, investment in, 132–134

- Balance sheet analysis, 164–167
- Banking industry, investment in, 128–131
- Basic materials sector, classification of, 42
- Beta statistic, 37–41
- Beverages industry, investment in, 96–97
- Biotechnology industry, investment in, 62–63
- Bond ladder, 156
- Bond Price Competition Improvement Act, 153
- Bonds, 22–23, 146–157, 195
 - broker fees, 153
 - corporate, 147–157, 195
 - Credit Suisse Company Yearbook, 149, 151
 - government, 22–23, 146–150
 - historical returns, 150–157
 - investment in, 146–157
 - investment selection of, 195
 - Prudential Short-Term Corporate Fund (PBSMX), 195
 - risk percentage, 150–157
 - trading (corporate), 153–154
 - yields, importance of, 22–23, 148–150
- Bottom-up valuation, 175–176
- Brinson Partners studies, 30–31
- Broadband growth, technology sector and, 108–110
- Broker fees, corporate bonds, 153

- Commodities, investment in, 160–162, 195–196
 - investment in, 160–162
 - investment selection of, 195–196
 - Vanguard Precious Metals & Mining Fund (VGPMX), 195–196
- Computer hardware and equipment industry, investment in, 112–114
- Computer software industry, investment in, 115–116

- Consumer discretionary sector, classification of, 42
- Consumer staples sector, 42–43, 89–105
 - beverages industry, 96–97
 - case study for analysis of, 100–105
 - classification of, 42–43
 - financial strength of, 92–93
 - food products industry, 94–95
 - global growth opportunities and, 91–92
 - guidelines for investment, 99–100
 - household products industry, 97–98
 - performance history, 89–90
 - product reliability of, 92–93
 - profit growth consistency and, 90–91
 - retailing industry, 93–94
 - sub-sector, investment analysis, 93–99
 - tobacco industry, 99
- Corporate bonds, investment in, 147–157
- Corporate profit margin analysis, 17–18
- Credit card servicing industry, investment in, 136–137
- Credit Suisse Company Yearbook, 149, 151
- Current ratio, 165

- Demographics, 52–54, 126–127
 - financials sector and, 126–127
 - health care sector and, 52–54
- Dividends, 18–22, 158
 - real estate investment trusts (REITs), 158
 - total returns, importance of in, 18–22
- Dreyfus Premier Technology Fund (DGVRX), 194

- Earnings per share (E.P.S.), 26–28, 167
 - growth rate, 26–28
 - income statement analysis, 167
- Economic factors, health care sector and, 56
- Energy sector, 43, 73–88
 - case studies for analysis of, 83–88
 - classification of, 43
 - financial position, strength of, 77
 - future supplies and, 74–77
 - global demand and, 74–75
 - guidelines for investment, 82–83
 - inflation hedge, strength of, 77–78
 - oil and gas drilling industry, 80–81
 - oil and gas exploration and production industry, 81–82
 - oil and gas industry, integration of, 78–79
 - oil and gas refining and marketing industry, 82

- Energy sector (*continued*)
 oil and gas services industry, 78–80
 performance history, 73–74
 sub-sector analysis, 78–82
 E.P.S., *see* Earnings per share (E.P.S.)
 Excelsior Energy & Nat Resources Fund (UMESX), 194
 Exchange-traded funds (ETFs), 29–30, 189–191
 costs, 190
 investment selection of, 189–191
 performance, 191
 sector allocation and, 29–30
 Select Sector SPDR, 29–30
 taxes, 190–191
 trading flexibility, 190–191
- Family Office Exchange (FOX), survey results, 5–7
- Fidelity Consumer Staples Fund (FDFAX), 192–193
- Fidelity Investments select sector mutual funds, 29–32
- Fidelity Real Estate Investment (FRESX), 195
- Fidelity Special Health Care Fund (FSPHX), 192
- Financial position, 77, 92–93, 111
 consumer staples sector strength of, 92–93
 energy sector strength of, 77
 technology sector strength of, 111
- Financials sector, 43–44, 125–143
 asset management industry, 132–134
 banking industry, 128–131
 case studies for analysis of, 138–143
 classification of, 43–44
 credit card servicing industry, 136–137
 demographics for, 126–127
 global growth opportunities, 127
 guidelines for investment, 138
 insurance industry, 133–135
 interest rates and, 127–128
 ownership advantages, 126
 performance history, 125
 securities industry, 130–132
 sub-sector analysis, 128–137
 thrift industry, 137
- Food products industry, investment in, 94–95
- Food Safety Modernization Act (FSMA), 94
- Forecasting return results, 7–23
 bond yields, importance of, 22–23
 corporate profit margin analysis, 17–18
 interest rates affects on, 24–28
 price-to-earnings (P/E) ratio, 7–14
 Q ratio, 14–16
 Schiller P/E method, 16–17
- Free cash flow (F.C.F.) yield ratio, 174–175
- Fundamental analysis, 163–183
 balance sheets, 164–167
 bottom-up valuation, 175–176
 business evaluation as, 163–164
 earnings per share (E.P.S.), 167
 free cash flow (F.C.F.) yield ratio, 174–175
 growth stocks, 176–177, 178–182
 income statements, 167–170
 interest coverage ratio, 167–168
 intrinsic valuation, 182–183
 price-to-earnings (P/E) ratio, 170–171
 price-to-earning-to-growth (PEG) ratio, 172–173
 price-to-sales (P/S) ratio, 171–172
 profit margin calculations, 168–170
 relative valuation, 182–183
 return on assets (R.O.A.), 173
 return on equity (R.O.E.), 173–174
 stock valuation approaches, 175–183
 top-down valuation, 175–176
 value stocks, 177–182
- Gas industry, *see* Oil and Gas industry
- Global demand, energy sector and, 74–75
- Global growth opportunities, 91–92, 127
 consumer staples sector and, 91–92
 financial sector, 127
- Global Industry Classification Standard (GICS), 30
- Gold, investment in, 160–162
- Goldman Sachs research, 31–32
- Government bonds, investment in, 22–23, 146–150
- Government factors, health care sector and, 57
- Government spending, technology sector and, 110–111
- Gross profit margins, 168–169
- Health care facilities industry, investment in, 65–66
- Health care providers industry, investment in, 64–65
- Health care sector, 43, 51–71
 biotechnology industry, 62–63
 case study for analysis of, 67–71
 classification of, 43
 demographics and, 52–54
 economic factors, 56
 facilities industry, 65–66
 government factors, 57
 guidelines for investment, 66
 income growth and, 55–56
 medical device industry, 59–62
 ownership advantages, 52
 performance history, 51–52
 pharmaceutical industry, 57–59
 providers industry, 64–65
 sub-sector investment analysis, 57–66
 technological advances and, 54–55
- High-volatility stocks, 39
- Household products industry, investment in, 97–98
- ICON Leisure & Consumer Staples (ICLEX), 193
- Income growth, health care sector and, 55–56
- Income statement analysis, 167–170
- Industrial sector, classification of, 43
- Inflation hedge, energy sector strength of, 77–78
- Inflation impact on returns, 20–22
- Insurance industry, investment in, 133–135
- Interest coverage ratio, 167–168

- Interest rates, 23–28, 127–128
 - financial sector investments and, 127–128
 - returns, effects on, 23–28
- International investing, 32–37
- International stock index (EAFE), 33–34
- Internet industry, investment in, 117–119
- Intrinsic valuation, 182–183
- Investment guidelines, 66, 82–83, 99–100, 120, 138
 - consumer staples sector, 99–100
 - energy sector, 82–83
 - financials sector, 138
 - health care sector, 66
 - technology sector, 120
- John Hancock Financial Industries Fund (FIDIX), 193
- Long-term debt-to-equity ratio, 166–167
- Low-volatility stocks, 39
- Market cycle, 44–46
 - early recession, 46
 - early recovery, 45
 - late recession, 45
 - late recovery, 45–46
 - utilization of sectors, 44–46
- Medical device industry, investment in, 59–62
- Milliman study, 5–6
- Morgan Stanley U.S. Real Estate Fund (MSUSX), 195
- Mutual funds, 191–194
 - Fidelity Consumer Staples Fund (FDFAX), 192–193
 - investment selection of, 191–194
 - Northern Technology Fund (NTCHX), 193–194
 - T. Rowe Price Financial Fund (PSIRX), 193
 - Vanguard Energy Fund (VGENX), 194
 - Vanguard Health Care Fund (VGHGX), 194
- NASDAQ exchange, 107
- Net profit margin, 169
- Northern Technology Fund (NTCHX), 193–194
- Oil and gas industry, 78–82
 - drilling, 80–81
 - energy sector investment analysis of, 78–82
 - exploration and production, 81–82
 - integration of, 78–79
 - refining and marketing, 81–82
 - services, 78–80
- Operating profit margin, 169
- Oppenheimer Corporate Bond Fund (OFIAX), 195
- P/E ratio, *see* Price-to-earnings (P/E) ratio
- Pharmaceutical industry, investment in, 57–59
- Portfolio examples, 198–200. *See also* Asset allocation
- Price-to-earnings (P/E) ratio, 7–14, 24–28, 170–171
 - company growth rates for, 9–12
 - formula for, 8
 - fundamental analysis using, 170–171
 - importance of, 7–9
 - interest rates affects on, 24–28
 - subsequent returns and, 12–14
- Price-to-earning-to-growth (PEG) ratio, 172–173
- Price-to-sales (P/S) ratio, 171–172
- Product reliability, consumer staples sector, 92–93
- Profit growth consistency, consumer staples sector and, 90–91
- Profit margin analysis, 17–18, 168–170
 - corporate, 17–18
 - income statement calculations, 168–170
- Prudential Short-Term Corporate Fund (PBSMX), 195
- Q ratio, 14–16
- Quick ratio, 165–166
- Real estate investment trusts (REITS), 157–159, 195
 - Fidelity Real Estate Investment (FRESX), 195
 - investment in, 157–159
 - investment selection of, 195
- Relative valuation, 182–183
- Retailing industry, investment in, 93–94
- Return on assets (R.O.A.), 173
- Return on equity (R.O.E.), 173–174
- Returns, 5–28, 32–37, 201–208
 - A.I.I. Asset Allocation Survey, 6–7
 - asset allocation expectations, 201–208
 - bond yields, importance of, 22–23
 - corporate profit margin analysis, 17–18
 - correlation of, 32–37
 - dividends, importance of, 18–22
 - earnings per share (E.P.S.) growth rate, 26–28,
 - Family Office Exchange (FOX) survey results, 5–7
 - forecasting results, 7–23
 - inflation impact on, 20–22
 - interest rates affects on, 23–28
 - Milliman study, 5–6
 - price-to-earnings (P/E) ratio, 7–14, 24–28
 - Q ratio, 14–16
 - Schiller P/E method, 16–17
 - seven-year, 20–22
 - Standard and Poor (S&P) 500 Index, 6
- Schiller P/E method, 16–17
- Sector allocations, 29–51
 - basic materials, 42
 - beta statistic, 37–41
 - Brinson Partners studies, 30–31
 - consumer discretionary, 42
 - consumer staples, 42–43
 - correlation of returns and, 32–37
 - energy, 43
 - financials, 43–44
 - Goldman Sachs research, 31–32
 - health care, 43
 - industrial, 43
 - international investing, 32–37

- Sector allocations (*continued*)
- investment strategy criteria, 48–49
 - market cycle utilization of, 44–46
 - performance of, 47–49
 - Select Sector SPDR ETFs, 29–32
 - technology, 44
 - utilities, 44
 - Vanguard Group studies, 31
 - volatility of sectors, 37–41
- Securities industry, investment in, 130–132
- Select Sector SPDR ETFs, 29–32
- Selection process, 185–196
- commodities, 195–196
 - corporate bonds, 195
 - diversification, 185–188
 - efficient-market hypothesis (EMH), 186–187
 - exchange-traded funds (ETFs), 189–191
 - liquidation conditions, 188
 - mutual funds, 191–194
 - overreaction behavior, 187–188
 - real estate investment trusts (REITs), 195
 - smaller accounts, 189–196
- Semiconductor industry, investment in, 116–117
- Standard and Poor (S&P) 500 Index, 6
- Stock valuation, 175–183
- bottom-up approach, 175–176
 - growth stocks, 176–177, 178–182
 - intrinsic approach, 182–183
 - relative approach, 182–183
 - top-down approach, 175–176
 - value stocks, 177–182
- Stocks, 42–44, 51–143, 176–182
- consumer staples sector, 42–43, 89–105
 - energy sector, 43, 73–88
 - financials sector, 43–44, 125–143
 - fundamental analysis and, 176–182
 - growth, 176–177, 178–182
 - health care sector, 43, 51–71
 - performance of, 178–182
 - sector allocations, 42–44
 - technology sector, 44, 107–124
 - value, 177–182
 - Supply and demand, energy sector and, 74–77
- T. Rowe Price Financial Fund (PSIRX), 193
- Technological advances, health care sector and, 54–55
- Technology sector, 44, 107–124
- broadband growth and, 108–110
 - case studies for analysis of, 121–124
 - classification of, 44
 - computer hardware and equipment industry, 112–114
 - computer software industry, 115–116
 - financial characteristics, strength of, 111
 - government spending and, 110–111
 - internet industry, 117–119
 - NASDAQ exchange, 107
 - ownership advantages, 108
 - performance history, 107–108
 - semiconductor industry, 116–117
 - sub-sector analysis, 112–119
- Thrift industry, investment in, 137
- Tobacco industry, investment in, 99
- Top-down valuation, 175–176
- Trading, 153–154, 190–191
- corporate bonds, 153–154
 - ETF flexibility, 190–191
- Treasury bond yields, 22–23
- Utilities sector, classification of, 44
- Vanguard Energy Fund (VGENX), 194
- Vanguard Group studies, 31
- Vanguard Health Care Fund (VGHCCX), 194
- Vanguard Precious Metals & Mining Fund (VGPMX), 195–196
- Volatility of sectors, 37–41
- Working capital, 166