

Resources: Internet access

Objectives: In this lesson, choose stocks from thousands of companies that you may have never heard of. They will use a tool called a stock screener to select stocks that fit their investing criteria, such as price-to-earnings ratio, earnings growth, and the past year performance. This technique will allow you to find stocks efficiently.

Background: Stock screeners used to be expensive and available to only professional money managers. Now, people can use a stock screener free from Yahoo! Finance <http://screen.yahoo.com/stocks.html>. The Yahoo! Stock Screener consists of eight categories (criteria). Each one of these variables will help you select stocks that meet their criteria from a database of over 6,000 stocks. The eight categories include:

- Industry
- Analyst recommendation
- Maximum or minimum share prices
- Market capitalization
- Price-to-earnings ratio
- Average daily volume
- One year estimated earnings growth
- One year stock price performance

To use this screener, you don't have to select all criteria at once. For example, some may be interested in only stocks that have increased in value over 50% for the past year. They would select the last criteria (one-year stock price increased), set the value at greater than 50%, and leave the other seven unchanged. The screener will bring back over 700 companies that meet these criteria. Now, they have to fine-tune their screening by adding more criteria such as the industry, for example - semiconductor. Then, students will find only a few companies that meet these criteria. As they learn more about these criteria through this lesson or other lessons on this Web site, students will find this type of screening tool helpful in selecting stocks for investments.

To analyze the screening results, look into additional variables, such as price-to-earnings ratio, market capitalization, average daily volume, and others. By clicking onto the heading of these variables from the top, they will see the stock list in ascending order or see the stock list in descending order by clicking onto the heading from the bottom.

Activities:

1. One of the investing strategies is to select high growth small-cap companies. To find small-cap stocks from the screener, students should select the " Market

Cap” for under \$500 million and keep all other variables in the “ Any” position. Now, complete the table below to narrow the selections.

Small-cap companies selection criteria				
Industry	P/E ratio	%Growth	% Price Increase	# Of Results
1. Any	Any	>50	>50	
2. Software	Any	>50	>50	
3. Software	Max. 30	>50	>50	

2. Another strategy is to go with the Wall Street professionals. To find stocks that analysts are presently strongly recommending, students should set “ Analyst Recommendation” to the “ 1” position. Now, complete the table below to narrow the selections.

Analyst recommendations selection criteria				
Industry	P/E ratio	%Growth	% Price Increase	# Of Results
1. Any	Any	25 to 50	Any	
2. Software	Any	25 to 50	Any	
3. Software	Max. 30	25 to 50	>50	

3. One strategy of investing is called “ bottom fishing.” To find stocks that performed poorly in the past year, students should select “ One Year Stock Price Performance” to “ Decrease greater than 50%” and keep all other variables in the “ Any” position. Now, complete the table below to narrow the selections.

One Year Stock Price Performance selection criteria				
Industry	P/E ratio	%Growth	% Price Increase	# Of Results
1. Any	Any	Any	Decrease >50	
2. Any	Max. 5	Any	Decrease >50	
3. Any	Max. 5	>50	Decrease >50	

4. Another strategy is to find winners in a given industry. To find stocks that have a leading position in an industry, students should complete the table below.

Industry criteria				
Industry	P/E ratio	%Growth	% Price Increase	# Of Results
1. Biotechnology	Any	Any	Any	
2. Biotechnology	Any	>50	Any	
3. Biotechnology	Max 50	>50	Any	

Additional activities:

Some stock screeners have more selection criteria than the ones listed above. Some of the screeners are used for mutual funds. Explore and compare screeners in the following Web sites:

(please note some Web sites charge a fee for the use of the screener)

- **MSN’ s Money Central:** <http://www.moneycentral.msn.com/>
- **Zacks.com:** <http://www.ultra.zacks.com/>
- **SmartMoney.com:** <http://smartmoney.com/>

Quicken.com: <http://www.quicken.com/>