



# THE MOST IMPORTANT *FACTORS* TO LOOK AT WHEN *ANALYZING* A STOCK

INSIGHTS INTO THE FACTORS  
WALL STREET PROS USE EVERY DAY

# INTRODUCTION:

## WHAT IS THE CHAIKIN POWER GAUGE™ RATING?

It took Marc Chaikin's forty years of experience as a Wall Street insider to create the Chaikin Power Gauge™, a sophisticated stock rating model that is a remarkably accurate indicator of where a stock is headed over the next 3-6 months. Culled from over 200 factors, the Power Gauge combines 20 of the most important factors, analyzed and distilled into a simple rating: **green** for **Bullish**, **red** for **Bearish**. Think of it as a GPS for stocks. Unbiased. Unemotional.

Why these criteria? These are the same 20 factors institutional investors and professional traders look at every day when they evaluate a stock. We call it an "eclectic model," because the Chaikin Power Gauge

is the only model that combines fundamentals with technical indicators...and adds our secret sauce of Expert Opinions. Use the Power Gauge to help you make your buy and sell decisions.



Here's the breakdown of the **20 factors**, grouped into **4 components**, that

make up the Chaikin Power Gauge stock rating model. Let the Power Gauge save you hours of time on research and analysis.

The Chaikin Power Gauge rating for **HCA** (*Hca Holdings -- Medical Care*) on October 9, 2018 will be used as an illustrative example of the factors that go into its **Very Bullish** rating.



The Chaikin Power Gauge Rating for HCA is Very Bullish due to very positive expert activity, strong earnings performance and strong price/volume activity.

Expert activity for HCA is very positive which is evidenced by analysts revising earnings estimates upward and a very low short interest ratio.

# FINANCIALS:

## WHAT WARREN BUFFETT LOOKS AT

A stock's financials are very important when qualifying a stock. In the Chaikin Power Gauge, this component, and the five factors that comprise it are weighted more heavily than the others. That is because they include the value metrics that investors like Warren Buffett use to find stocks that are both well priced, as well as having potential for long-term price appreciation.

The **five factors** that make up this component include:

- Debt to Equity Ratio (*Debt/Equity*)
- Price to Book Value Ratio (*Price/Book Value*)
- Return on Equity
- Price to Sales Ratio (*Price/Sales*)
- Free Cash Flow Analysis

Financial metrics are essential, because they help identify stocks with significant underlying value, as well as those that may be less risky than others in the marketplace. Taken together, these metrics provide a reliable overview of the financial health of a company, as well as an overview of how the market is viewing its stock.

The **Debt/Equity Ratio** looks at the long term debt of a company. Long term debt refers to debt that will mature or be paid over one year or more. The ratio is calculated quite simply as the long-term debt that a company has taken on, or issued, divided by shareholder equity. When you hear a company described as “highly leveraged,” it typically means that the company's debt/equity ratio is high. The Chaikin Power Gauge Rating evaluates this metric in comparison only to each company's industry group. Companies that take on too much debt are vulnerable



in economic downturns and when interest rates are rising. Companies that have little or no debt are, at least in theory, in a stronger position to survive adversity. Because every industry has different points of view relative to debt, it's important to measure in terms of companies within the same industry.

The classic measurement of how cheap or expensive a stock is, relative to the underlying value of the company, is **Price/Book Value**. Investors like Warren Buffett and before him, Graham and Dodd, Buffett's teachers, stressed the importance of buying a dollar of assets for less than one dollar. Price/book value measures this. This ratio is important, because on a relative basis, it identifies those stocks in the marketplace that offer significant value, based on a price that may be trading at a discount to the underlying assets of the company.

**Return on Equity** measures how profitable a company is, relative to shareholder equity. This is important because it is a measure of management efficiency and effectiveness. This ratio is ranked relative to its industry group, since for example, a supermarket

chain will typically have a much lower return on equity than a technology or drug company. Since this is a way to measure management’s effectiveness, investors use this as a tool to zero in on companies where both the industry trends and the management combine to provide better returns.

The **Price/Sales Ratio** measures the price of a stock in terms of one dollar in revenue. In other words, it tells how much you are paying for one dollar in revenue. The general rule of thumb is that if you pay more than 2.5 times the price of a dollar in revenue, those stocks as a group will generally underperform.

Assets and Liabilities	
Ratio	
Current Ratio	1.36
LT Debt/Equity	-7.64

Valuation	
Ratio	
Price/Book	0.00
Price/Sales (TTM)	1.04

Returns	
Ratio	
Return on Invest	10.43%
Return on Equity	-61.68%

*All values latest quarter, except where noted.*

Business value, or **Free Cash Flow**, is the single most important factor in the Chaikin Power Gauge, and should be an important consideration for any investor. This is the factor that Warren Buffett built his successful, fifty-year investing career around. It measures the amount of cash that a company has generated at the end of a given fiscal year.

It is important, because, unlike some other metrics, such as earnings/share, which can be manipulated by accounting techniques, cash is cash. If a company has generated what is known as “free cash flow” or “excess cash” by the end of a year, it is an excellent measure of the company’s success and viability.

# EARNINGS:

## THE COMPANY'S ANNUAL SCORECARD

There are several important ways investors should quantify earnings. Quite simply, earnings can be seen as a company's scorecard, and the Chaikin Power Gauge considers earnings and sales growth over the past three to five years.

The **five factors** within this component include:

- Earnings Growth
- Earnings Surprise
- Earnings Trend
- Projected Price/Earnings Ratio
- Earnings Consistency

The first factor, **Earnings Growth**, is measured over a three-year period, to provide a comprehensive and up-to-date picture.

Another important metric, **Earnings Surprise**, is also incorporated into the Chaikin Power Gauge Rating. Each quarter when a company reports its earnings,



those earnings are measured against estimates made by Wall Street analysts. When actual reported earnings exceed analysts' estimates, there is a positive earnings surprise. Conversely, when actual earnings disappoint analysts, a negative earnings surprise has occurred.

The Chaikin Power Gauge looks at earnings surprises over the past five quarters, since they tend to trend, either positively or negatively. Or to say it another way, Earnings Surprises come in bunches.

5 Year Revenue and Earnings Growth					
	12/13	12/14	12/15	12/16	12/17
Revenue(M)	34,182.00	36,918.00	39,678.00	41,490.00	47,653.00
Rev % Growth	3.54%	8.00%	7.48%	4.57%	14.85%
EPS	\$3.37	\$4.16	\$4.99	\$7.30	\$5.95
EPS % Growth	-3.44%	23.44%	19.95%	46.29%	-18.49%

**Earnings Trend** measures the expected earnings for the next year, as contrasted to the earnings growth in the previous year. It may be indicative of a company with accelerating earnings, and it can be used to rank stocks against one another.

EPS Estimates				
factor		Actual EPS Prev	EST EPS Current	Change
Quarterly EPS		\$2.29	\$2.67	+0.38
Yearly EPS		\$5.95	\$9.23	+3.28
factor		Actual EPS Growth	Est EPS Growth	Change
3-5 year EPS		7.69%	12.20%	+4.51

The fourth component is the **Projected Price/Earnings Ratio**. For years, quantitative investors enjoyed outstanding results by relying on a single value metric, price/earnings ratio, which looks at share price, as compared with a stock's earnings per

share. This factor has become less valuable over the past 20 years, but if you look at the price/earnings ratio with respect to projected earnings for the current fiscal year, there is predictive value that has been incorporated into the model.

EPS Surprise				
	Estimate	Actual	Difference	% Difference
Latest Qtr	\$2.14	\$2.29	\$0.15	7.01
1 Qtr Ago	\$2.07	\$2.33	\$0.26	12.56
2 Qtr Ago	\$1.87	\$2.12	\$0.25	13.37
3 Qtr Ago	\$1.21	\$1.21	\$0.00	0.00

EPS Quarterly Results					
FY	Qtr1	Qtr2	Qtr3	Qtr4	Total
12/16	\$1.69	\$1.65	\$1.59	\$2.39	\$7.32
12/17	\$1.74	\$1.75	\$1.15	\$1.30	\$5.94
12/18	\$3.18	\$2.31	-	-	-
Fiscal Year End Month is December.					

Finally, there is the **Earnings Consistency** factor. Wall Street values companies that turn in consistent earnings growth and penalizes those that report erratic earnings performance. So, as in the story of the hare and the tortoise, slow and steady wins the race.

# TECHNICALS:

## MEASURING PRICE AND VOLUME

The technical analysis component of the Chaikin Power Gauge rating is based on Marc Chaikin's proprietary technical analysis work of the past 45+ years. Technical analysis, as incorporated into the Chaikin Power Gauge model, looks at price activity and volume trends as a way to both identify stocks that are in strong or weak technical trends, as well as to predict when those trends might reverse.

The five factors within the technical component of the Chaikin Power Gauge include:

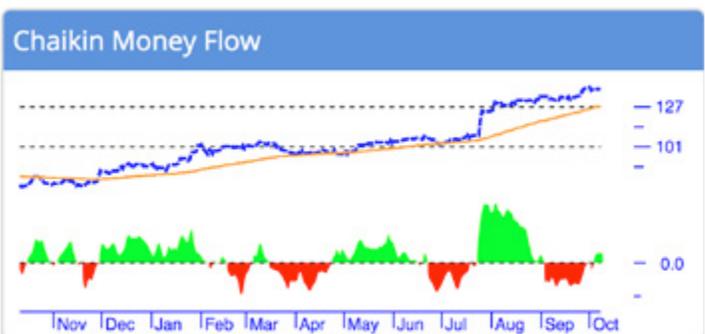
- Strength of an individual stock vs. the market with the S&P 500
- Chaikin Money Flow
- Chaikin Trend
- Price Trend Rate of Change
- Volume Trend

The first of the technical factors considers the **Strength of an Individual Stock** as compared with the overall market with the S&P 500 as the benchmark for market performance.



**Chaikin Money Flow**, the technical indicator by which Marc Chaikin built his reputation, is another very important factor that can help you qualify a stock according to what the big institutions are doing. Chaikin Money Flow is a proxy for the magnitude of institutional buying or selling over a 21-day period, looking back over 6 months to determine the persistence of accumulation or distribution.

To understand the value of this, picture yourself tracking a deer in the woods, for example. If smart money is leaving a stock, then it could be time to reevaluate your investment.



The Chaikin Money Flow lets you see the tracks of the deer, or the levels of investment dollars into and out of the stock, as well as whether the direction is headed up or down.

The **Chaikin Trend** is a long-term price average for an individual stock, which provides an excellent indication of the trend of a stock's price. It serves us in two ways. First, whether the stock is trading above or below the Chaikin price trend, there is the indication of the direction in which the stock is trending. The slope of the line, whether it's rising or falling as compared to recent values, also gives an excellent indication of the price trend of the stock in the very near-term.

Price Activity		Price Activity		Volume Activity	
Factor	Value	Factor	Value	Factor	Value
52 Week High	140.30	%Chg Price - 4 Weeks	5.61%	Avg Vol 20 Days	1,769,941
52 Week Low	74.22	%Chg - 24 Weeks	43.32%	Avg Vol 90 Days	1,702,143
%Chg YTD Rel S&P 500	15.08%	%Chg 4 Wks Rel to S&P	5.34%	Chaikin \$Flow Persistence	62%
		%Chg 24 Wks Rel to S&P	32.68%		

**Price Trend Rate of Change** looks for stocks that have had significant moves, either up or down, over the last eight weeks. It goes by the assumption that if a stock has gotten too far ahead of itself, or if it has dropped significantly over the past eight weeks, then the stock is likely to reverse in the short term, just as a pendulum swings back and forth. This is also known as a mean reversion indicator. Although this factor has a small weighting in the overall model, it serves to dampen the bullish or bearish enthusiasm of the model at price extremes.

Measuring the short term volume in a stock vs. a longer term measurement of volume, known as **Volume Trend**, is important because it is often said of the stock market that when volume increases as prices are heading up, that can be taken as an indication that the trend will continue. The reverse, however, is more nuanced. When prices are heading down, and volume is picking up, that may also indicate that the downward price trend will continue. If volume becomes extreme, the stock may be experiencing a glut in selling, which will affect the model in a bullish way.

# EXPERTS:

## WHAT THE EXPERTS ARE SAYING AND DOING

When evaluating a stock, it's also important to take into account the opinions of the most knowledgeable participants in the stock market.

This can be one of the most difficult areas for individual investors to quantify, but the Chaikin Power Gauge breaks this area down into these 5 areas:

- Earnings Estimate Revision
- Short Interest
- Insider Activity
- Analyst Opinions
- Strength of Industry Group vs. the Market

**Earnings Estimate Revisions** tell you whether analysts are raising their earnings estimates for a given company over the past thirteen weeks or whether they are lowering them, indicating a change in perception. Obviously, you would like analysts to be raising estimates on your company. This indicates that they think the future is brighter for that company.

A powerful but little-used indication of where a stock is headed is **Short Interest**. This is based upon a small but very knowledgeable group of investors, short sellers. Short sellers, unlike most investors or traders, sell a stock short, as they are expecting it to decline in price. Because the long-term price trend of stocks over the last 100 years has been up, short selling is a tricky discipline.

Short sellers are considered by many to be the smartest investors on Wall Street, because their mission is to find stocks that will decline, either because of fraudulent practices, over-valuation, loss



of competitive edge in the marketplace, or any of a number of factors.

In the Chaikin Power Gauge rating, increases in activity by short sellers have a bearish impact on the rating of a stock. Such activity indicates that this smart group of investors is betting against the stock, and this factor is unique to the Chaikin Power Gauge Rating. It is not commonly found in other stock rating models.

**Insider Activity** measures whether the management and directors of a company are buying or selling the stock over the past six months. The Chaikin Power Gauge rating is positively impacted when company insiders are buying their own stock. The reasons for this might seem obvious, but corporate management is very highly incentivized by compensation packages that include stock options, golden parachutes, and other incentives tied to the company stock price.

When a corporate manager puts his/her own money on the line and buys the stock, it is a strong positive statement about the price of the stock. Otherwise, he/she would do nothing.

**Analysts Opinions** are another important factor. Analysts typically rate stocks on a scale from very bullish at the top to very bearish at the bottom. They may use other words, such as “outperform” or “underperform,” to describe their ratings, but changes in these ratings or opinions are important and measured over a four-week period. The Chaikin Power Gauge Rating likes to see increased opinions about individual stocks. An analyst’s hold rating is akin to a neutral rating by the Chaikin Power Gauge. Of the twenty factors in the Chaikin Power Gauge rating,

the analyst-related factors are the most sensitive on a short-term basis, as analysts weigh in on stocks daily. It is also important to note that some stocks are more widely followed than others. For example, stocks like IBM, Apple, or Procter & Gamble will be followed by as many as 100 analysts. Smaller companies will be followed by relatively few analysts. For these companies, when an analyst changes his opinion, either positively or negatively, that has a significant impact on the Chaikin Power Gauge Rating.

Earnings Estimate Revisions			
	Curr	7d Ago	%Chg
Curr Qtr	1.93	1.93	0.00%
Next Qtr	2.67	2.67	0.00%
	Curr	30d Ago	%Chg
Curr FY	9.23	9.23	0.00%

Analyst Recommendations	
Factor	Value
Mean this Wk	Buy
Mean Last Wk	Buy
Change	0.00
Mean 5 Wks Ago	Buy

Estimate Revision Summary				
	Last Wk		Last 4 Wks	
	Up	Down	Up	Down
Curr Qtr	0	0	0	1
Curr Yr	0	0	0	0
Next Qtr	0	0	0	0
Next Yr	0	0	2	0

In general stocks in industry groups that are performing better than the market as a whole will tend to outperform the market. Therefore, a stock’s **Industry Group** is important to consider. Companies in industry groups that are stronger than the market are likely to do better than the market, and the strength of the industry group will factor bullishly in the Chaikin Power Gauge Rating.

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