## GRAHAM SEARCH FOR A SIMPLE WAY TO SELECT STOCKS: TEN ATTRIBUTES OF AN UNDERVALUED STOCK*

**(Few companies can meet all ten criteria.)**

1. *An earnings-to-price yield (reverse of the P/E ratio) that is double the triple-A bond yield.* If the triple-A bond yield is 8 percent, the required earnings yield then will be 16 percent.
2. *A price-to-earning ratio that is four-tenths of the highest average P/E ratio achieved by the stock in the most recent five years.* (To get the average P/E ratio, an average stock price for a given year is divided by the earnings for that year.)
3. *A dividend yield of two-thirds the triple-A bond yield.* Stocks paying no dividends or those that have no current profits from which to pay dividends are excluded.
4. *A stock price of two-thirds the tangible book value per share.* This is calculated by adding up all the assets, excluding intangibles such as goodwill, patents, etc., subtracting all liabilities and dividing by the total number of shares.
5. *A stock price that is two-thirds of the "net current asset value" or the "net quick liquidation value."* The net quick liquidation value is current assets (those assets that are immediately convertible into cash, fixed assets omitted) less total debt. This, of course, was the foundation of Ben's original theory.
6. *Total debt that is less than tangible book value.*
7. *A current ratio of two or more.* The current ratio is current assets divided by current liabilities. This is an indication of the company's liquidity, or its ability to pay its debt from its income.
8. *Total debt at or less than the net quick liquidation value.* (Net quick is defined in Number 5.)
9. *Earnings that have doubled in the most recent ten years.*
10. *No more than two declines in earnings of 5 percent or more in the past ten years.*

*Criteria one through five measure risk; six and seven define financial soundness; eight through ten show a history of stable earnings.