

**A Great Company**

The company's annual earnings per share (EPS) have closely tracked its strong revenue growth.

Such performance indicates a strong management team. One that can make and sell products with sufficient efficiency to generate high and consistent profit growth.

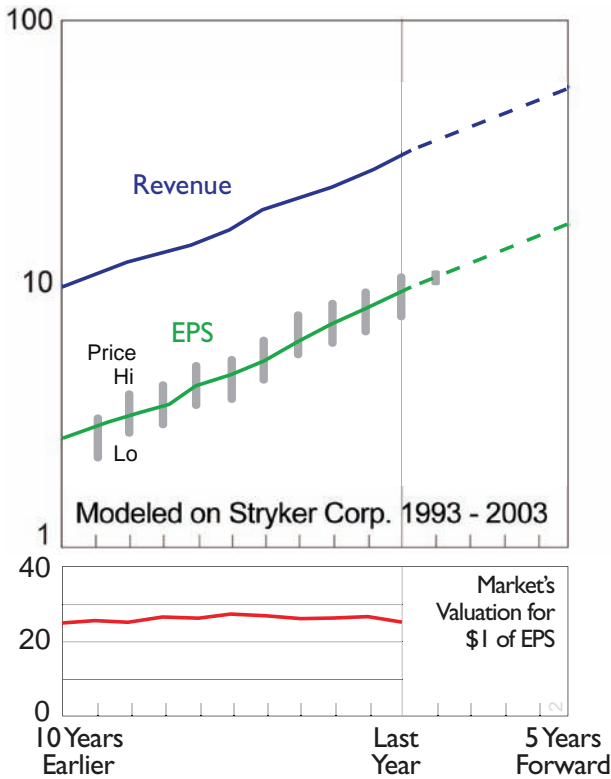
Earnings prospects are similarly strong.

**A Great Company with a Great Stock**

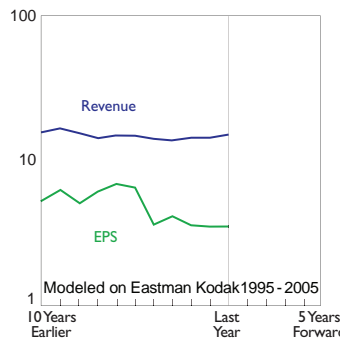
Growth in the stock's fiscal-year, high-low price range has closely tracked earnings.

That close tracking indicates a generally stable valuation for each \$1 of the company's EPS.

Valuation is measured as the price/earnings ratio (P/E).



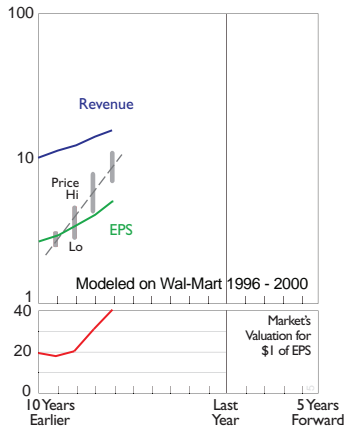
**A Troubled Company**



Even once-great companies can respond ineffectively to unfavourable developments such as new competition or new technology.

Seasoned investors know that planned corporate 'turnarounds' can suffer considerable delays and sometimes fail.

**Illustrations of Great Companies with Troubled (a.k.a. Overvalued) Stocks**

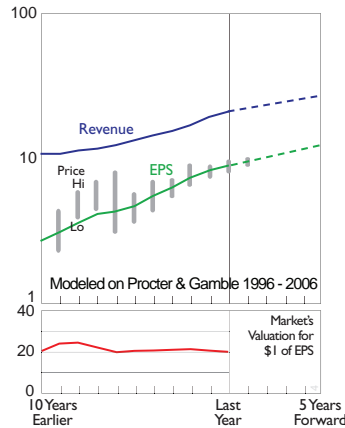


**Classic Overvaluation**

Generally, a company's EPS become overvalued when the fiscal-year, high-low price ranges grow faster than EPS and disconnect entirely from the EPS profile.

While highly different growth rates for price and EPS can continue for lengthy periods, they cannot endure.

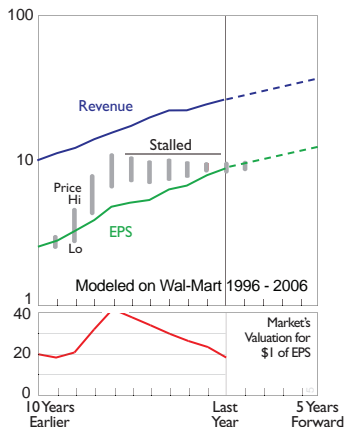
Eventually, overvaluation is corrected, often with the P/E ratio declining towards the EPS growth rate.



**Overvaluation Quickly Corrected**

After several years of modest overvaluation, the market corrected it by taking the stock's low price down to the EPS profile (and even lower) – quickly, during just one fiscal year.

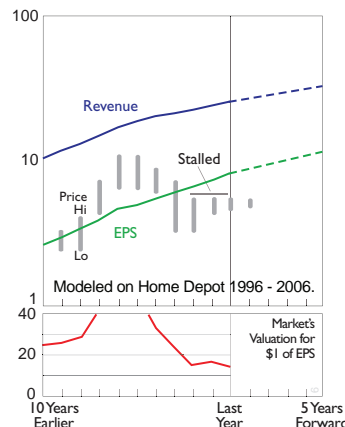
The reconnection of the high-low price ranges with the EPS profile returned the EPS valuation to its earlier 'tracking' relationship with the EPS growth rate.



**Overvaluation Slowly Correcting I**

After several years of quite significant overvaluation, the market began correcting it by moving the fiscal-year price ranges sideways, while EPS continued growing.

Despite the apparent reconnection of the price range and the EPS profile, the downward trend in valuation may not have halted.



**Overvaluation Slowly Correcting II**

After several years of overvaluation, the market began correcting it by:

- ▶ Lowering the fiscal-year, high-low price ranges,
- ▶ Then, moving the price ranges sideways while EPS continued growing.

The downward trend in valuation may not have halted.