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6 Categories of Stocks

- **Slow Growers:** Large, aging companies; pay healthy dividend; ex: utilities
- **Stalwarts:** 10-12% annual grower; good protection; ex: KO, PG, MMM
- **Fast Growers:** Small, aggressive new company; 20-35% grower; “10 baggers”
- **Cyclicals:** Industry expands/contracts in cycles; stocks exaggerate the market movement; ex: autos, airlines, tires, steel, chemicals
- **Turnarounds:** Battered or depressed co’s near bankruptcy; no growth
- **Asset Plays:** Company w/ assets worth more than share price; ex: BBRY in 2012

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Slow Growers

- Large and aging companies expected to grow slightly faster than GDP
- Pay generous, regular dividend because cannot think of new ways to expand the business
- Example: utilities

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Stalwarts

- 10-12% annual earnings growth
- Lynch sought 30-50% gain from these stocks
- Good protection during recessions and downturns
- Examples: KO, BMY, PG, K, MMM

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Fast Growers

- Small, aggressive new enterprises
- Growing 20-25% a year
- Land of 10-baggers and more
- Does not need to belong to fast growing industry
- Look for clean balance sheet and profitability
- Be careful not to buy at the end of growth phase
- Examples: NFLX, TSLA, SSYS, CMG, BRLI

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Cyclicals

- Industry that expands and contracts in cycles
- Rises coming out of recession; falls hard in downturns
- Many mistake them as stalwarts
- Timing is everything
- Examples: autos, airlines, tires, steel, chemicals

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Turnarounds

- Companies that have been battered, depressed or near bankruptcy
- No growers
- Big risk, big reward
- Very difficult to invest in
- Focus on debt load and structure
- Examples: RSH, CROX, BBRY

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Asset Plays

- Also referred to as "net-net's"
- Company sitting on assets worth more than stock price
- Assets could be cash, real estate, mineral rights, patents, TV stations, tax loss carry-forward, subscribers, etc.
- Examples: BBRY in 2012, MSN last year

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Stalwarts

- 10-12% annual earnings growth
- Generally mid to large cap familiar stocks
- Best tool for identifying buying opportunities:

The Peter Lynch Chart

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Fast Growers

- Small, aggressive new enterprises
- Growing 20-25% a year
- Land of 10-baggers and "bragging rights" gains
- Lynch's Rule of Thumb: P/E ratio less than growth rate
- Best tool for identifying buying opportunities:

PEG Ratio

PEG = P/E ratio ÷ growth rate

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Peter Lynch Fast Grower Scan

- Market Cap < $5 billion
- Debt to Equity < 0.4
- Predictable revenue and earnings
- 5-yr EBITDA growth of 20-35%
- 10-yr EBITDA growth > 15%
- PEG < 1.0
- No Over-the-Counter stocks