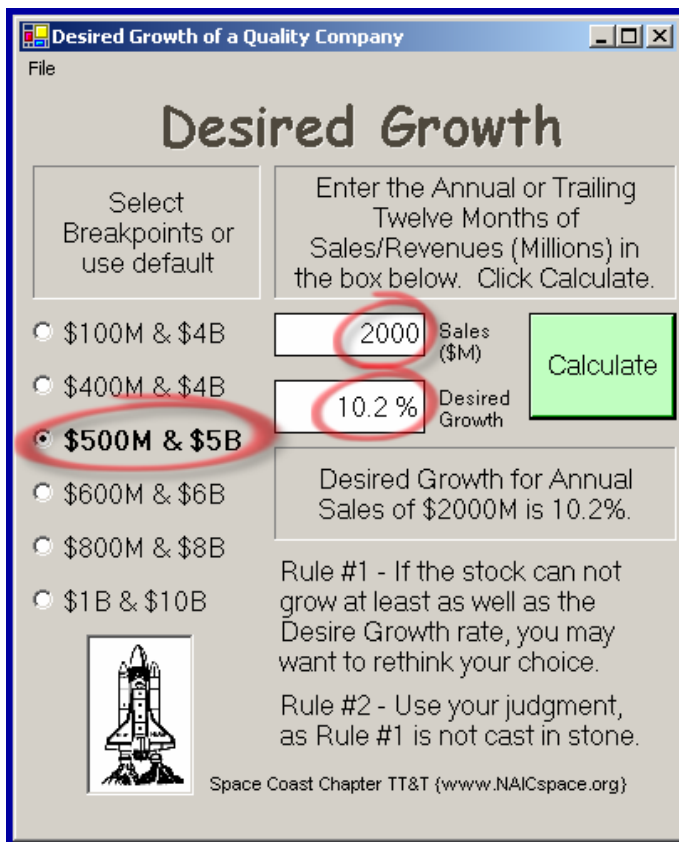


Tips, Tricks, & Techniques

Desired Growth Calculator

The Desired (or Expected) Growth of a Quality Company is a concept first introduced by Ellis Traub in the manual for earlier versions of the Investor's Toolkit software and in his *Take Stock*.

We have all become so hung up on 15% total return that we have lost sight of the fact that Sales and Earnings need not grow at 15% to achieve our desired result. Following the NAIC principle of reinvesting dividends a large-sized company with sales and earnings growth of 7% may and probably will achieve a 15% total return for long term investors.



DG.exe is a simple windows based calculator that you may want to make a part of your stock studies.

In the example, we have used the default breakpoint between small and mid-sized companies at \$500 million and between mid and large-sized companies at \$5 billion. Next \$2000 million (or \$2 billion) of annual sales was used. Clicking on the Calculate button returns the Desired Growth, 10.2%.

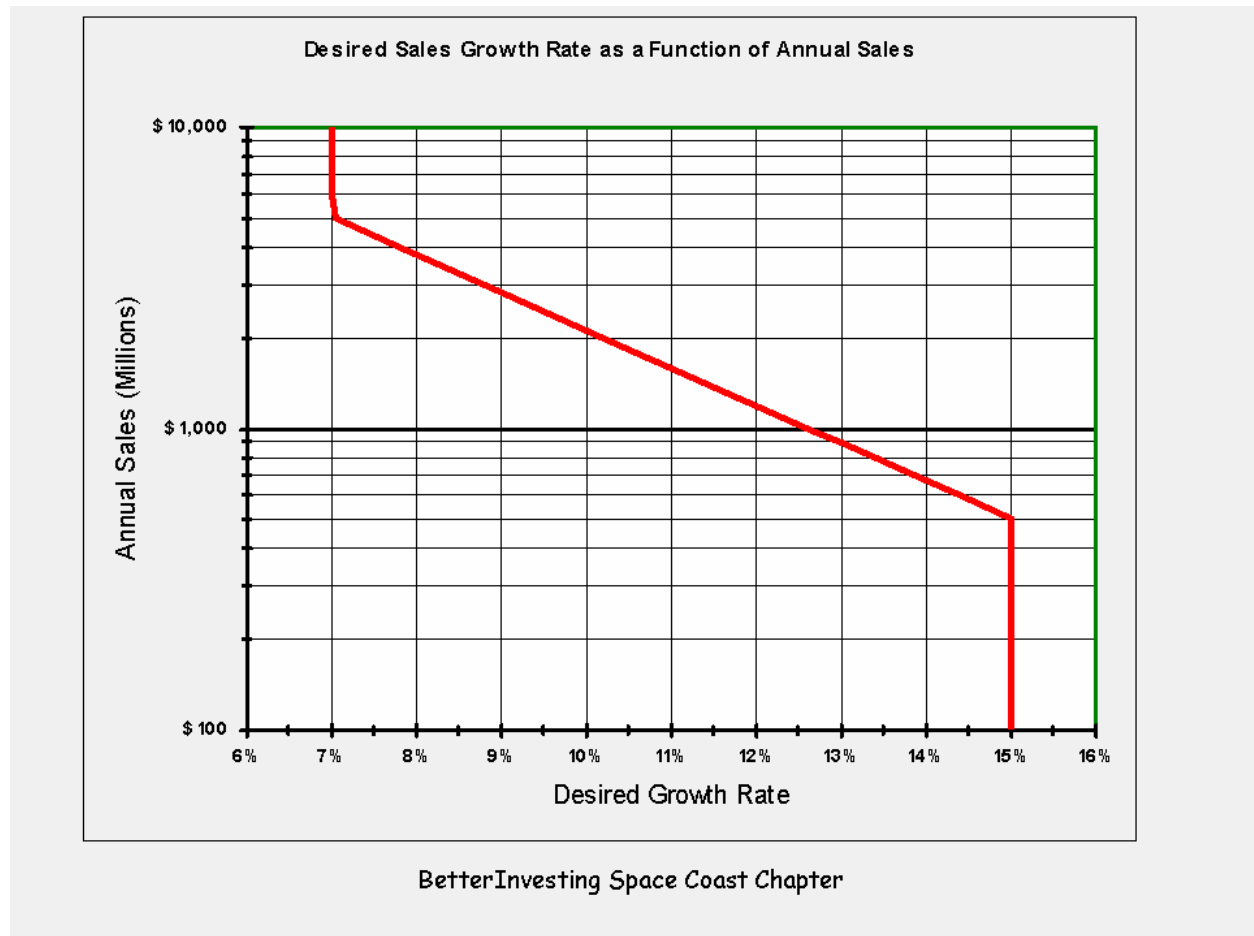
If you follow the 2 simple rules, paying particular attention to the second one, you may find this tool helpful.

It should be noted that originally the breakpoints were \$100 million and \$4 billion. Again this is a judgment item but note that the further you move down in breakpoint selection, the more conservative you become.

The calculator is available at www.NAICspace.org in the Toolkit Visual Analysis collection of Tips, Tricks & Techniques. It is a small executable file. Contact Webmaster@NAICspace.org to report any problems or suggestions for improvement. DG.exe has been tested with 98SE, ME, and XP Op Sys. If it will not run on your computer you may have to install Microsoft's free .NET Framework.

Desired Growth Calculator (continued)

Background - The concept introduced earlier by Ellis Traub showed a plot of the Desired Sales Growth Rate as a function of annual or trailing 12 months of sales like the following chart except that the breakpoint between Small-sized and Mid-sized companies was at \$100 million and the breakpoint between Mid-sized and Large-sized companies was at \$4 billion of sales.



The breakpoints shown here, in the opinion of the writer, are more in line with current judgment. They are \$500 million and \$5 billion. These are the default values for the calculator (shown bolded). The user of the calculator, however, may select breakpoints inline with his judgment. Choices are:

- \$100 million and \$4 billion
- \$400 million and \$4 billion
- **\$500 million and \$5 billion**
- \$600 million and \$6 billion
- \$800 million and \$8 billion
- \$1 billion and \$10 billion

Inflation creep will inevitably shift the default value higher.