# Choosing Growth Stocks for the 1950s

List May Not Be as Successful as Decade Ago on Eve of War Boom

IN the past, a Growth stock was defined as a "share in a business enterprise which has demonstrated long-term growth in earnings and which, after careful research study, gives indications of continuing such growth in the future, reaching new high earnings per share at the peak of each subsequent major business cycle."

No mathematical formula or yardstick alone can be relied upon for identifying Growth stocks. The requirements for an active up-to-date list are a matter of judgment and should be reviewed and revised periodically as factual information and a new appraisal of political and economic trends dictate. We can list eight fundamental factors to consider in forming one's judgments:

1. Management must be aggressive, efficient, understand social trends and have the good will of its employees. Directors and officers should have a substantial stock ownership in their companies, the value of which and the income from which are not overshadowed by

By T. ROWE PRICE ARTICLE I

excessive salaries and pensions.

- 2. Intelligent research which develops new products, new markets for existing products, or both, is essential if a company is to forge ahead in a rapidly changing world. It is easier for a company to realize high profits on new products than on old ones which have attracted competition.
- nature should be guarded against, as it impedes growth.
- 4. Finances must be strong enough to permit companies to weather periods of adverse earn-
- 5. Return on invested capital low turnover. must be reasonable - 8% or magnitude. Investors

seek a company that can lower the cost of production and develop an expanding market without materially reducing the return on capital invested in the business.

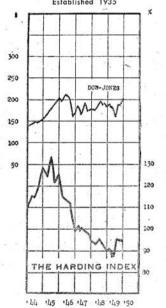
- 6. Profit margins before taxes must be reasonable, the percentage varying with the industry. A profit margin of 6% is satisfactory for a company which re-3. Competition of a cut-throat tails consumers' goods such as food, clothing, and low-priced sundries, having a rapid turnover. On the other hand, a 10%-15% profit margin is necessary for the company which sells high-priced products and has a
- 7. Socialistic influences reabove - and not experiencing a strict earnings. Companies long-term decline of dangerous whose actions are circumscribed should by government regulation of

rates, wages, and profits should be avoided. The majority of companies furnishing the necessities of life, such as public transportation, communications, heat and light, and retailing bread, milk, meat, and many other food products fall in this category. When living costs rise and the consumer's pocketbook is pinched, the public is opposed to such corporations earning large profits, and works through governmental bodies to subordinate the profit motive to the public welfare.

8. Employees should be well paid, but the total payroll should be relatively low and easily adjusted to changes in business volume.

These are some of the most important factors which should be checked when picking Growth stocks, but it must be remembered that few companies meet all the requirements listed above. Capable management is the most important. If such management takes over the operation of a company which is in an industry with unlimited opportunities for expan-

## The Harding Index BUSINESS CYCLE BAROMETER



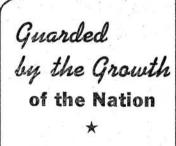
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#### HOW EARLIER GROWTH CHOICES FARED IN WAR DECADE

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These stocks were the survivors of a list with which Mr. Price began experimenting in 1945. The suffix (a) means that the stocks had already proved themselves to be growth stocks because their earnings rose to new heights after the 1937 setback; (b) indicates that the stocks had not at that time passed this test, but were expected to do so when business improved for the industries represented. (At that time Mr. Price had culled 20 stocks from his list of tentative growth issues, because it appeared their best days were behind them.) All share values are adjusted for splits and stock dividends.



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