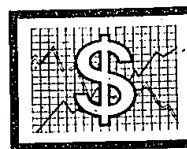


Business

Barry Janson editor/591-2300



O&E Thursday, December 22, 1983

08010

Avoid buying stock at sales peak

I seem to have made a mistake in buying Hospital Corp. of America stock. My broker said it was a very high quality company, and several of my friends have told me that they have made a lot of money on the stock.

I started looking at it last March, and in early summer I decided to buy. I paid \$55 a share, and it went just a little bit higher and then started to go down.

Yesterday, it was selling at \$41. The stock market generally is doing well, so it looks like I made a mistake. Can you tell where I went wrong?

Let's look at this company and its record to see if we can find any clues that would help you. There is nothing wrong with the company's record of increasing income.

Ten years ago, the company's revenues were \$207 million. Last year it



I today's investor

Thomas E. O'Hara

of the National Association of Investment Clubs

was more than 14 times higher. There are few companies that can point to a record as good as that.

The rate of growth through those years is 42 percent compounded annually. Most importantly, the rate of growth through the first six months of 1983 was 49 percent.

That's higher than the historical average, so the reason why the price of the stock came down cannot be due to any weakness in the rate of growth.

EARNINGS per share in those same

10 years have grown from 27 cents to \$2.25. That works out to an average compound annual increase of 28 percent.

For the first six months of 1983, earnings per share are up 25 percent. That's right up with the average, so the price decline is not due to an earnings problem.

The company's recent earnings on invested capital at 14.8 percent are just about even with the average for the last five years and are at a very good level. Altogether, it looks like you did

an excellent job of picking a company with exceptionally good figures.

It looks to me that where you went wrong, and I suspect you won't be wrong for long, was in buying the stock at a peak of popularity, and consequently paying too high a price earnings ratio for it.

At \$55 and earnings per share of \$2.25, you paid 25 times earnings for the stock. The highest PE the stock sold for in 1982 was 20, and that is just about twice what most of the stocks in the Dow-Jones Industrial Averages sell at.

A company with the outstanding record of Hospital Corp. is going to sell at a higher PE than the average company, but at 25, it was higher than it has sold at in any recent year. This means simply that if interest in the stock drops off a little, its price is likely to come down.

marketplace

ITHM of Birmingham has joined Corporate Acquisition and Merger Affiliates Inc., an association of recognized consultants in the mergers and acquisitions field providing comprehensive service to buyers and sellers of businesses.

Daikin Manufacturing Co. of Japan has moved its U.S. sales office from California to Troy. The new office has a 28,500-square-foot warehouse. Daikin is a major automobile parts manufacturer based in Osaka, Japan.

Simons Michelson Zieve Inc. of Troy has been appointed to handle all advertising, merchandising and promotion for the RAO Tire Co. of Detroit.

The former Raleigh House in South-

field will be renamed Telecenter. The new complex will be a high-tech center housing Dupont Center, among other tenants.

High school seniors interested in attending Pontiac Business Institute can apply for \$200-per-term scholarship through the Michigan Business Schools Association. Deadline for applications is Feb. 29. For more information, call PBI at 333-7453.

The booklet, Doing Business with the Federal Government, is available for \$4.50 from the Consumer Information Center, Dept. 132L, Pueblo, Colo. 81009. The booklet offers guidance on how to get on bidders lists, where to find out about federal agencies' needs which agencies have procurement programs and where you can go for help.

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