THE NAVELLIER FORMULA

Our Eight-Point Inspection Plan

Our rating systems are composed of two main components. The fundamental grade, which looks at qualitative factors such as sales growth, return on equity, among others, and a "quantitative" grade, which factors in how the company trades relative to the market. The total grade is weighted 70% on the quantitative score. It's important to remember the fundamental grade is changing each quarter, and the fundamental grade is changing each day.

Here is the complete description of each fundamental variable:

Sales Growth

I like a company that can grow its sales over time. Why? Because it's one number that is hard to fake. My background is in accounting, and I've always made sure to steer away from companies that use questionable accounting practices. Sales growth is a solid indicator.

Operating Margin Growth

This simply tells me if earnings are growing faster than sales. A company that's able to expand its operating margins is usually a company that has a dominant position in its industry. This company can raise prices without seeing a drop-off in sales. That's a nice place to be.

Earnings Growth

This is at the heart of all good financial analysis, and I rely on it as well. As long as any company is able to grow its earnings consistently, its stock will do well.

Earnings Momentum

It's not enough for me to see a company's earnings growth — I also want to see its rate of growth increase.

Earnings Surprises

Speaking of beating earnings, I also look to see if a stock has been able to beat its earnings estimates, and by how much. This is an important number to watch because it often tells me about a stock that Wall Street isn't paying much attention to or doesn't yet get.

Analyst Earnings Revisions

I like to see stocks that have had their earnings estimates increased by Wall Street analysts. This usually tips us off to a stock that's about to beat earnings.

Free Cash Flow

This tells me how much money a company has left over after paying for the costs of its business. Having a strong cash flow is important because it allows a company to invest more resources in growing its business.

Return on Equity

This is the gold standard. ROE tells me how efficiently a company is managing its resources. I can't interview every senior manager at a company, so I like to think of ROE as a report card for management.

All of these factors come together to form the total **Fundamental Grade**. I then combine that with my **Quantitative Grade** — which measures buying pressure, market sentiment, and a few other important variables — and gives us the **Total Grade**, which determines if the stock is strong or weak.

My formula requires four consecutive quarters' worth of earnings data before a stock is added to the Stock Grader database. Stocks need to be listed on the NYSE or NASDAQ for one full year to be eligible for a grade.

Stock Grader also doesn't follow penny stocks or exchange-traded funds (ETFs). Any stock that trades 5,000 shares per day and has been trading for the past 52 weeks qualifies to be in my database, so illiquid stocks and initial public offerings will be excluded.

For more information, see https://stockgrader.investorplace.com/about.