



Value Line®

## PRODUCT GUIDE

### THE VALUE LINE

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# Special Situations Service®

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## Economic view

**The U.S. economy continues to perform nicely even as problems persist around the globe.** To wit, we recently have seen a solid pickup in retail spending, the strongest showing in industrial production in eight months, somewhat better utilization rates at U.S. factories, and further resilience in housing, where starts recently climbed to their highest level since late 2007. Meanwhile, this is taking place as growth decelerates in China; debt woes linger in Greece; and oil slumps to multi-year lows on the world stage.

**We see this benign U.S. outlook continu-**

FOMC meeting (in July) indicated that the conditions for the first interest rate hike in nearly a decade had not been met as yet—especially in the area of inflation, which remains negligible. In our view, there now is less than an even chance for a rate increase when the Fed meets in three weeks, but it could be a close call.

**Meanwhile, there are risks to our forecast,** and these are largely, but not totally, on the global side. That said, we also sense that a misstep by the Fed or a major budget impasse in Washington could upset the balance in our economy. All the while . . .

# The Value Line Special Situations Service



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## PRODUCT OVERVIEW

Published monthly, *The Value Line Special Situations Service* is designed to help investors build a portfolio that includes smaller company stocks. Smaller companies can offer higher growth potential, but investing in them can carry increased risk. The goal of *The Value Line Special Situations Service* is to help investors create a diversified small- and mid-cap portfolio that includes Aggressive stocks that can be balanced with Conservative stocks which operate in relatively stable industries. Each issue of *The Value Line Special Situations Service* includes a new Aggressive recommendation as well as a new more Conservative recommendation. For Aggressive selections, the service seeks companies that typically have the potential to generate strong earnings growth over the next three to five years. The more conservative selections might not have as much growth potential, but their share prices are typically not as volatile, and they may pay dividends. *The Value Line Investment Survey—Small & Mid-Cap* serves as the basis for all selections. On that note, *Special Situations* subscribers are encouraged to consider also subscribing to *The Value Line Investment Survey—Small & Mid-Cap*, which provides, on a weekly basis, encyclopedic information and investor tools, as well as two model portfolios that focus on smaller capitalization companies. For more information, please call **1-800-VALUELINE** (1-800-825-8354).

## SPECIAL SITUATIONS RANKINGS

*The Value Line Special Situations Service* assigns each of its stocks one of four rankings:

**Especially Recommended** — The service's highest recommendation; a strong buy. All new recommendations enter the service with this ranking and remain at this level until they are downgraded.

**Buy** — A stock may be downgraded to Buy if our view of the company has been altered recently. We still think the equity will outperform the broader market, but its prospects don't appear as great compared to those that we deem Especially Recommended. Although stocks with this rank do not, in the service's opinion, have the same potential as

stocks ranked Especially Recommended, in general, they are expected to match or outperform the market.

**Hold** — A stock may be downgraded to Hold as it appreciates in value and approaches our estimated Price Target. Investors who already own the stock should maintain their positions, but additional purchases are not recommended. Occasionally, it may be suggested that investors who have owned the stock since it was initially recommended, and have profited from their positions, consider selling some of their shares at this time in order to lock in their gains and use the proceeds to invest in one or more of the service's Especially Recommended or Buy stocks.<sup>1</sup>

**Sell** — Investors are advised to sell and apply the proceeds to one or more current Especially Recommended or Buy stocks in the service. A stock may be downgraded to Sell if it meets or exceeds the Price Target, a new product or service the company is developing fails to meet expectations, or because of other material changes with respect to the company or the overall market which have caused the share price to fall below our stop-loss target (discussed below). The Sell recommendation represents the final review by *The Value Line Special Situations Service*.

In addition to downgrades, stocks rated Hold may be upgraded from time to time, as circumstances warrant.

## FEATURES OF THE VALUE LINE SPECIAL SITUATIONS SERVICE

Included with each new recommendation is a detailed report that provides an overview of the company, an examination of its finances, and a discussion of the stock's potential over the next three to five years. In many cases, few if any other sources of research offer the detailed analysis that *The Special Situations Service* brings you. The most-recent stock report from *The Value Line Investment Survey—Small & Mid-Cap*, which offers a wealth of historical financial data, is also provided. Note that the ranks shown in the top-left corner of the stock report page were current as of the date shown below the business description, and may have changed.

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<sup>1</sup>Investors should of course consider their own risk preferences, taxable status, and holding period for capital gains/losses purposes, in making such decisions.

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The Projected Valuation box that is provided with each new recommendation includes the service's forecast for revenues, earnings per share, and a 3- to 5-year Price Target. The projected earnings per share growth rate is an annualized rate over a five-year period, starting with the most recently completed fiscal year. The three- to five-year Price Target is determined by multiplying the estimated earnings per share by the appropriate price-earnings multiple as determined by our Research Department.

Every issue includes detailed updates on six companies recommended previously by *Special Situations*. Companies are updated on a periodic basis, until a sale (i.e., Sell) of the stock is advised. Each update provides the current ranking of the stock, the recent share price, the estimated dividend yield over the next 12 months, the estimated share price within the next three to five years, and the date and price when the stock was recommended initially. In addition, each update contains the stock's performance record since it was initially recommended, the recommended stop-loss price, the company's website, the high and low share price for the current year and previous four years, a graph charting the share price over the past 24 months, and quarterly revenues and earnings for the past three years with projections for the current year. A detailed synopsis of recent company developments and our current opinion of the stock's potential are also provided.

Other features include a Portfolio page which lists all the stocks followed by *Special Situations*, which are broken down into Aggressive and Conservative portfolios. The portfolio tables also include the recent share price, the estimated dividend yield over the next 12 months, and the date and price when the stock was initially recommended.

On the front page is an economic overview titled Economic View. This section is composed by Harvey S. Katz, CFA. Mr. Katz is our Chief Economist and Managing Editor, and has been with Value Line for more than four decades. The economic commentary provides readers with the latest hard facts on the state of the domestic and global economy, as well as our thoughts on the stock market's current and future prospects. Recent and upcoming economic and

corporate reports are also discussed here. The Portfolio Updates features stocks in the service that had notable developments since the previous month's issue which may have had a material effect on the share price or Performance rank.<sup>2</sup> Make sure to check this section each month, as it has ranking changes — including Sell alerts — for stocks that are not otherwise updated in the issue.

## STOP LOSS

Since many small-cap stocks operate in niche industries or rely on a single product or small group of products or services, they can be highly volatile, especially during economic downturns. As such, a stop-loss price for each stock in the service is set in order to provide investors with a measure of protection for their invested capital. Stop losses may be adjusted upward as the share price increases. If a stock in the service breaches the stop loss, a Sell alert is generally placed on the security, and investors are advised to apply the remaining proceeds to one or more of the service's Especially Recommended or Buy stocks. Readers may wish to enter corresponding stop-loss orders with their brokers, for *Special Situations* stocks that they own.

## HOW TO GET THE MOST OUT OF THE SPECIAL SITUATIONS SERVICE

The goal of *The Value Line Special Situations Service* is to help investors build a balanced, diversified portfolio of small- and mid-cap stocks as part of their overall investment mix. A balanced portfolio may help offset some of the risk associated with investing in small, speculative, or start-up companies.

Subscribers are advised to consider fully the information contained in the New Recommendation reports before committing capital. There is a great deal of variation in the degree of risk and the potential for gains that comes with investing in small companies. Thus, a subscriber should select — from the new recommendations made each year, as well as from the list of previously recommended equities that are currently listed as Especially Recommended or Buy — those that best meet the requirements of his or her own portfolio.

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<sup>2</sup>For more information in regard to Value Line's Ranking System for Performance, please consult *The Value Line Investment Survey*® — *Small & Mid-Cap Product Guide*.

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We strongly recommend that investors distribute the portion of their portfolio devoted to special situations among several securities rather than focus on a single company. Investors should keep in mind that more-aggressive selections are recommended for their long-term appreciation potential, rather than for short-term capital gains. Since these Aggressive selections can be highly speculative, they should represent only a limited portion of one's total portfolio. Investors must understand that although our aggressive investment ideas offer the potential for substantial capital appreciation, they carry an elevated level of risk. We strongly recommend the use of stop losses when investing in these companies, as the potential for significant, rapidly occurring losses is present, but so is the prospect of market-beating gains.

## GETTING STARTED

A common question we receive from new *Special Situations* subscribers is: "how do I get started?" Typically, more than 40 stocks are held in the service's Aggressive and Conservative Portfolios at a given time, and we don't suggest there's a need to buy them all. There is no right answer here, but we generally recommend one of the following strategies, any of which will enable subscribers to effectively build and maintain a portfolio of smaller cap stocks. First, however, the investor needs to consider his/her own risk profile. That will dictate whether to focus on the Aggressive or Conservative stocks highlighted in the service. That said, a great percentage of subscribers typically select stocks from both lists in order to balance out the potential risk and reward.

The first method of building a portfolio from the *Special Situations Service* is to focus only on the newest recommendations. Thus, subscribers simply purchase one or more of the most recent monthly recommendations and, going forward, consider taking a position in all new highlighted stocks. Another method, which does require a more-active trading strategy, is to purchase all (or almost all) stocks in the Aggressive and/or Conservative Portfolios that are currently assigned our Especially Recommended and, potentially, our Buy rankings. In either case, before making any trades, subscribers are strongly encouraged to read our initial reports for each recommended stock, as well as any follow-up analysis that we have published (discussed below).

Subscribers also need to keep track of their holdings and, each month, review our updated rankings to ensure that we are not recommending any sells.

## PRODUCT ACCESS

Value Line *Special Situations Service* reports are available via print and online at our password-protected website, which can be accessed from our homepage [www.valueline.com](http://www.valueline.com). Print customers receive the monthly reports by first class mail, and enjoy free online access to *Special Situations*. You should have received login credentials at the time of subscribing. If you do not have this information, or need help in any way, please call **1-800-VALUELINE** (1-800-825-8354).

The Special Situations website includes a number of features that will help investors get the most out of their subscriptions. Of course, the full monthly reports are posted here, including the complete historical record going back 10 years. In addition, the initial Aggressive and Conservative recommendations are posted and cataloged separately, so that subscribers can quickly and easily find these documents. Reviewing this information can be quite valuable as it provides detailed overviews of why Value Line originally recommended each particular stock. This can help users get a better understanding of a company's history, and how its operations, and its corresponding stock's fortunes, have changed over time.

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# Also available from Value Line

## **The Value Line Investment Survey<sup>®</sup> — Small & Mid-Cap**

*The Small and Mid-Cap Survey* applies our proprietary Ranking System, and data and analysis protocols to a universe of approximately 1,700 stocks that have the potential for significant growth. Available in Classic Print or Digital.

## **The Value Line Investment Survey**

Puts our proprietary Ranking System, along with analyst commentary and 3-to-5 year stock price projections, at your fingertips for approximately 1,700 of the most actively traded stocks. Available in Classic Print or Digital.

## **Value Line Select<sup>®</sup>**

Subscribers receive a detailed, monthly report by Value Line senior analysts, recommending one stock that has the best upside and risk/reward ratio.

## **Value Line Select: Dividend Income & Growth**

A monthly, in-depth report recommending one dividend-paying stock, providing extensive information about the company's finances, prospects, and projected earnings. Two alternative selections are also evaluated.

## **Value Line Select: ETFs**

Once a month, subscribers receive a thorough report by Value Line senior analysts, recommending one ETF that is expected to outperform the broader market.

## **The Value Line Fund Advisor Plus**

An essential, one-of-a-kind investment guide that recommends a model portfolio of mutual funds based on risk tolerance and time horizon. The service also includes data and analysis on 20,000 mutual funds.

## **The Value Line Options Survey**

Interactive daily analysis and rankings of more than 200,000 stock and stock index options — now with Bid and Ask prices and evaluations.

For fastest service, order online at [www.valueline.com/products/](http://www.valueline.com/products/) or call **1-800-VALUELINE** (1-800-825-8354) — 24 hours/7 days — Including holidays.

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