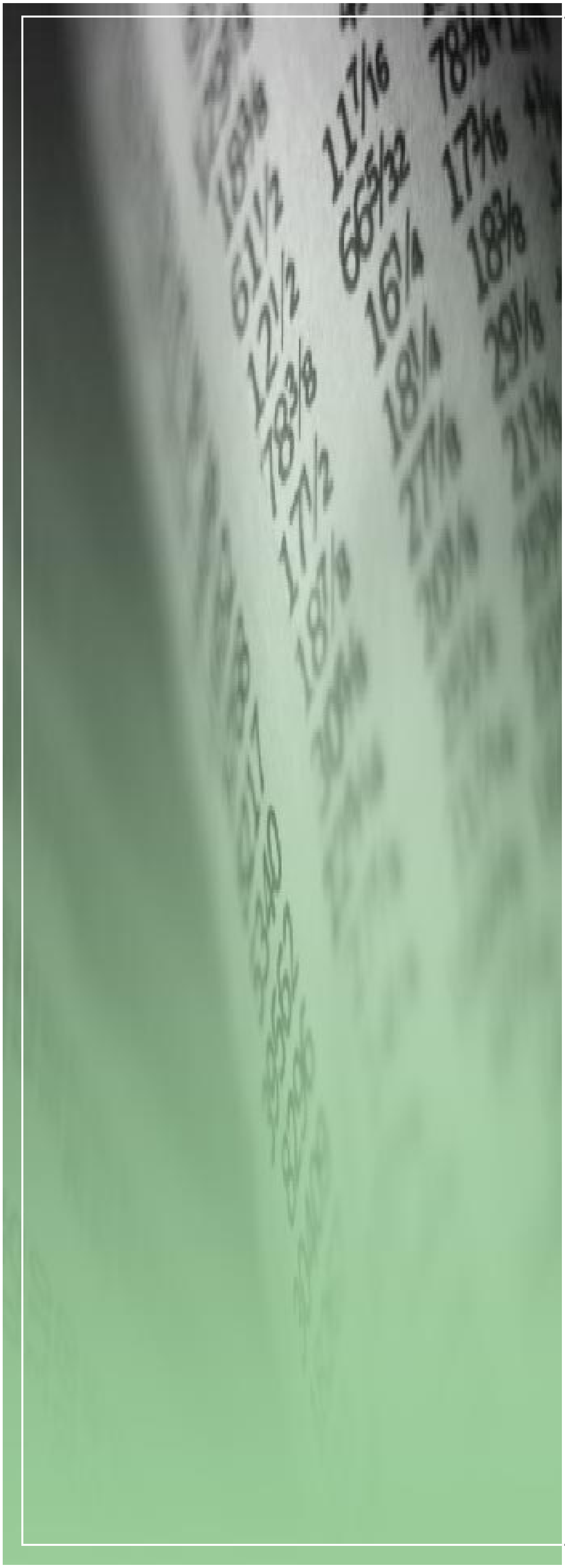


The Zacks Rank

Harnessing the Power of Earnings Estimate Revisions

INTRODUCTION

If you are now reading this guide, then it means that you are interested in learning more about the Zacks Rank that has produced tremendous returns since inception in 1988. How tremendous? Our top rated stocks have produced the following results for investors:

- +33.7% average annual return since 1988 vs. +12.1% for S&P 500
- Outperformed S&P 500 in 15 of the last 16 years.
- +100.3% total return since 2000 vs. the worst bear market in over 60 years.
- +59.3% gain in 2003 YTD (through October 31, 2003)

On the following pages we will cover everything from the company background, to the basics of our investment philosophy to using the resources available on Zacks.com to beat the street. In the end we believe that you will feel the same as these long time Zacks customers…

"I don't buy a stock unless Zacks says it's a Strong Buy"

Tim Mally
Madison, WI

"I can honestly say that I have never felt as confident in my trading, nor have I been as profitable, as I have by using Zacks."

Kurt Petrich
Norfalk, VA

"Just about every other online site I go to - WSJ, SmartMoney, CNBC, Worldlyinvestor, Freerealtime, etc, reference is made to Zacks research. I decided that I ought to just get the info first hand."

Alan Scott
Cherry Hill, NJ

"I pay a lot of attention to sell recommendations from Zacks to dump stocks before they go bad."

LeRoy L. Lynn
Laramie, WY

WHO IS ZACKS?

Zacks Investment Research

Zacks Investment Research (ZIR) was formed in 1978 to compile, analyze, and distribute brokerage research to both institutional and individual investors. The guiding principle behind our work is the belief that there must be a good reason why the brokerage firms spend over a billion dollars a year to research stocks to recommend to their clients. Obviously these investment experts must know something special that is indicative about the future direction of stock prices. We were bound and determined to unlock that secret knowledge and make it available to our clients to improve their investment results.

This massive undertaking requires us to annually process over 500,000 pages of brokerage research produced by the 4,000 investment analysts employed by 250 U.S. and Canadian brokerage firms. In addition, each week we record 25,000 earnings estimate revisions and changes in brokerage firm recommendations. Zacks provides this important data through our own web site at Zacks.com and through partnerships with hundreds of other leading web sites who display our information. This extensive outreach makes Zacks research the most widely used investment research on the web.

Creation of the Zacks Rank

With this wealth of information at our disposal the team at Zacks set out to find patterns in the brokerage research data that would serve as an accurate indicator of the future direction of a stock. What we discovered is that…

Earnings per share (EPS) estimate revisions
are the most powerful force impacting stock prices.

This led to a groundbreaking article by Leonard Zacks, Ph.D., published in the Financial Analysts Journal in 1979 entitled "EPS Forecasts - Accuracy Is Not Enough". From this seminal work was born the Zacks Rank, which is a quantitative model that uses 4 factors related to earnings estimates to classify stocks into five groups; with 1 being the highest and 5 being the lowest. Since 1988 the Zacks #1 Ranked stocks have generated an average annual return of 33.7% vs. 12.1% for the S&P 500 (calculated through 10/31/03). We will go into depth on the Zacks Rank on the following pages, but for now be sure to note that the Zacks Rank is very different from the 1 to 5 Average Brokerage Recommendation rating we make available on the hundreds of other investment web sites. More on that later.

What Really Makes the Market Tick

No matter which school of investing you subscribe to, sooner or later the movement in the stock price can be traced back to earnings. Over the subsequent pages we will walk you through a series of logical steps in order to show just how powerful a force earnings estimate revisions are on the price action of a stock. And more importantly, how the Zacks Rank is a leading indicator that allows you to get on board the stock early enough to enjoy robust gains.

Who Are Institutional Investors?

Institutional investors are the professionals who manage the trillions of dollars invested in mutual funds, pension plans, hedge funds etc. Whereas the retail/individual investor is all the John Q. Publics of the world who independently invest for their own private accounts. Now here's a simple question. Who has the greater ability to influence the price of a stock; institutional investors or individual investors? The answer, of course, is the institutional investors who come to the market ready to trade millions of dollars on a singular stock. And that financial muscle has a much greater effect on the movement of the stocks they buy and sell. When you understand the power institutional investors have on the market, then the next step is to try and understand what motivates their buy/sell decisions.

Stock Valuation Models

Most institutional investors attended prestigious business schools where they were taught a number of classical financial models. Many of these models help them to calculate the fair value of a company and its shares based upon a number of financial metrics. Almost without exception these valuation models focus on earnings generated by these companies now and far into the future. Until someone invents a time machine, then the only way to run these models based upon future earnings is through the use of earnings estimates. On the simplest level it can be understood that if you raise the earnings estimates used in the model (input), then it will create a higher fair value for the company and its stock (output). And visa versa for a stock with lowered estimates. Thus, it is imperative to learn more about earnings estimates.

Where Do Earnings Estimates Come From?

The best and most widely used source of earnings estimates comes from the brokerage analysts who track these publicly traded firms (a.k.a. Sell Side Analysts – in that they "sell" their research to others like institutional investors or to the brokerage firms retail clients…individual investors). These analysts work hand-in-hand with company management to continually rethink every aspect that may affect future earnings. Let's look closer at the role of each of the two main players who help to formulate these earnings estimates:

Company Management: All businesses need to create financial projections of their future to properly plan for and manage operations. Among other things they will certainly make earnings estimates for the next several years. These estimates are then shared in some fashion with the brokerage analysts who follow the firm. From there the analysts will layer in some of their own assumptions that helps to create an independent earnings estimate (more on Brokerage Analysts below).

An important thing to note is the motivation behind the estimates the company will share with the analysts. You have to remember that most corporate executives make a large percentage of their compensation from ownership in the companies stocks (usually through stock option plans). And these executives have learned over the years that when the company misses earnings estimates, then almost without exception the stock price will tumble and they will lose a considerable amount of money. Thus, it is in their best interest to provide the brokerage analysts with fairly conservative earnings estimates for the organization, which gives the firm the best chance of meeting or exceeding estimates and keeping the stock price aloft.

Brokerage Analysts: These 4000+ people form the heart and soul of the research departments at the 250 brokerage firms throughout the U.S. and Canada. Their job is to make profitable buy, sell, and hold stock recommendations to the clients of the brokerage firm. Along with the recommendation they must analyze the company fully and make financial projections on the health of the company going forward. The most important of these financial measures is the earnings per share (EPS) estimate for upcoming quarters and years.

Among other things, analysts are judged by the effectiveness of their stock recommendations. The better the firm's clients do with the recommendations, then the more valuable the analyst is to the firm. Just like the corporate executives, these analysts have learned over time that stock prices generally fall when companies miss estimates. Thus, as time evolved analysts have learned to submit more conservative earnings estimates for the companies they recommend in the attempt to make sure that all meet or exceed the estimate.

(Note that over 10 years ago only about 50% of companies met or exceeded earnings estimates every quarter. Now that number has moved to 80%+ as corporate executives and brokerage analysts have wised up to the importance of creating conservative earnings estimates.)

Consensus Estimates

For any given stock there may be from 1 to 40 brokerage analysts following the company and making EPS estimates. For over 20 years, Zacks has been tracking these individual sell-side analyst estimates and creating consensus EPS estimates. Long story short, there is no reason to rely on the estimate of just one analyst when you can combine the intelligence of the whole analyst community by creating a consensus estimate.

Zacks Consensus Estimate = The average of all EPS estimates made within the last 120 days. Older estimates are not included.

Zacks calculates this consensus estimate for each of the next four fiscal quarters, each of the next three fiscal years and as a growth rate over the next five years.
These consensus estimates are the benchmark by which the company will be judged by the investment community. When actual earnings come out the company will meet, exceed or miss estimates. Certainly the latter is the most dreaded outcome for it is a clear sign of failure by the company and the share prices will most likely tumble.

Estimate Revisions

The real value of brokerage analyst EPS estimates is not in the consensus but in the changes in the individual brokerage analyst EPS estimates from the consensus. As stated earlier, earnings estimate revisions are the most powerful force impacting stock prices as proven by the work of Leonard Zacks Ph.D. back in 1979. That is why we go through the painstaking effort of promptly recording any earnings estimate revisions into our systems. In fact, we receive daily electronic files from almost all of the 250 brokerage firms and during an average week we record over 25,000 estimate revisions made by these brokerage firm analysts. These vital estimate revisions are delivered to Zacks.com members through the web site and via their personal Daily E-mail Updates. More on that later.

Zacks Rank- The Key to Successful Investing

Now that you realize the power of earnings estimate revisions, the next logical question is…*How do I employ them to invest more successfully?*

Well, not all earnings estimates are the same. Thus, we developed the Zacks Rank, which is a special quantitative model based on trends in earnings estimate revisions and EPS surprises that classifies stocks into five groups, #1, #2, #3, #4, and #5 (#1 being the highest and #5 being the lowest). Since inception the Zacks Rank has proven to be a very reliable indicator to predict future movements in stock prices over a 1-3 month time horizon. How reliable has it been? During the past 15 years the portfolio of Zacks #1 Ranked stocks have generated an average annual return of 33.7% vs. the S&P return of only 12.1% during the same period. Too often people do not appreciate how much more money would be generated at 33.8% annual return vs. 13.3%. The first mistake is to subtract the latter from the former to say that the Zacks Rank is 20.5% better than the S&P 500. WRONG!!!

The second mistake is to divide 33.8% by 13.3% to show that the Zacks Rank is 154% better. Getting warmer, but still off the mark. That calculation only factors the benefit of investing for 1 year. Now take this 154% improvement year after year for 16 years (from

1988 to 2003). And that final measure is well north of 1000% improvement. Enough said.

See the table that follows for the yearly performance of the all the Zacks Rank groups (1 through 5). You will discover that the Zacks Rank not only provides profitable buy signals, but also points out those to sell now. As one of our clients said…

"(The Zacks Rank) allowed me to identify losers faster to dump."

D. Van Farowe
Seneca, CA

Year	ZR1 – Strong Buy	ZR2 – Buy	ZR3 – Hold	ZR4 – Sell	ZR5 – Strong Sell	S&P 500
1988	**37.46%**	**29.69%**	**20.79%**	**19.13%**	**18.39%**	**16.20%**
1989	**36.09%**	**26.84%**	**15.85%**	**9.55%**	**-5.10%**	**31.70%**
1990	**-2.97%**	**-13.69%**	**-21.32%**	**-23.85%**	**-34.71%**	**-3.10%**
1991	**79.79%**	**56.80%**	**45.98%**	**36.60%**	**34.35%**	**30.40%**
1992	**40.65%**	**29.63%**	**18.04%**	**12.24%**	**17.31%**	**7.51%**
1993	**44.41%**	**26.86%**	**14.78%**	**8.59%**	**9.54%**	**10.07%**
1994	**14.34%**	**5.15%**	**-3.56%**	**-11.14%**	**-10.90%**	**0.59%**
1995	**54.99%**	**46.84%**	**30.63%**	**17.35%**	**9.11%**	**36.31%**
1996	**40.93%**	**28.60%**	**16.07%**	**7.71%**	**8.02%**	**22.36%**
1997	**43.91%**	**33.87%**	**22.93%**	**10.17%**	**3.05%**	**33.25%**
1998	**19.52%**	**12.92%**	**-3.47%**	**-8.77%**	**-14.84%**	**28.57%**
1999	**45.92%**	**35.53%**	**31.02%**	**18.46%**	**17.69%**	**21.03%**
2000	**14.31%**	**-1.47%**	**-17.75%**	**-19.52%**	**-3.95%**	**-9.10%**
2001	**24.27%**	**11.70%**	**14.09%**	**17.93%**	**20.20%**	**-11.88%**
2002	**1.22%**	**-14.51%**	**-19.39%**	**-23.50%**	**-17.59%**	**-22.10%**
2003 YTD*	**59.27%**	**62.06%**	**55.54%**	**46.37%**	**43.70%**	**21.22%**
Annualized	**33.71%**	**22.29%**	**12.26%**	**5.99%**	**4.49%**	**12.14%**

*2003 YTD is calculated through October 31, 2003

Zacks Rank performance is the total return (price changes + dividends) of equal weighted portfolios, consisting of those stocks with the indicated Zacks Rank, assuming zero transaction costs. These returns are not the result of a backtest. Zacks has been providing its clients with the Zacks Rank on a weekly basis since 1985. The stocks in the Zacks Rank portfolios were available to Zacks clients before the beginning of each month (monthly rebalancing).

How is the Zacks Rank Calculated?

The Zacks Rank is based on four factors:

Agreement: Extent to which all brokerage analysts are revising their EPS estimates in the same direction. The more analysts revising upward, the higher the Zacks Rank.

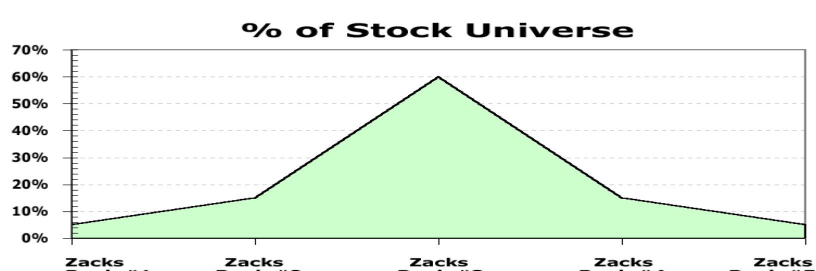
Magnitude: Size of recent changes in current fiscal year and next fiscal year consensus estimates. Ex. A 10% earnings estimate revision is more powerful than a 2% revision.

Upside: Deviation between the most accurate EPS estimates and the consensus. We know from years of experience that the most recent estimate is in general the most accurate. Here again, you have to realize there is no benefit for the analyst to put in a substantially higher estimate unless he knows something special. This measure of upside is one of the best early indicators of a potential earnings surprise. Over time investors have dubbed the most recent estimate the "whisper number" of what is actually expected when earnings comes out.

Surprise: Based on the last few quarterly EPS surprises. The more often the company has posted a positive surprise in the past, the more likely they are to surprise in the future (and visa versa).

Every night we recalculate these four factors for the universe of stocks covered by the brokerage analyst community (approx. 4000 stocks). The 4 measures are combined into a composite score, which is then used to assign a Zacks Rank.

Zacks Rank	Recommendation	% of Stock Universe	Approx. # of Stocks	Average Annual Perf. %
#1	Strong Buy	5%	200	33.71%
#2	Moderate Buy	15%	600	22.29%
#3	Hold	60%	2400	12.26%
#4	Moderate Sell	15%	600	5.99%
#5	Strong Sell	5%	200	4.49%



As you will note the universe of stocks takes on a "bell-shaped" distribution when divided by Zacks Rank. Thus, the #1 stocks are truly the "cream of the crop" since they represent the top 5% of the stock universe experiencing the strongest earnings estimate revisions. And given the increased attractiveness of these stocks they have subsequently generated a return at twice the rate of the S&P 500 since inception. Over the years the Zacks Rank has gained considerable notoriety as it has even substantially outperformed other famed ranking systems such as the Value Line Timeliness Rank.

Frequently Asked Questions

Time after time these 3 questions surface after reading this material. So, let's arm you with the answers now.

Question 1: Why does the Zacks Rank change so quickly? One day a stock is rated as #1 and the next it could be #2 or lower.

Answer: The Zacks Rank is a very "sensitive" indicator that is updated daily (note daily update of Zacks Rank is only available on our premium service ZacksAdvisor.com. Our free site, Zacks.com, offers weekly updates). As you can see, only 5% of the stock universe can be a #1 at any given time. That's pretty stiff competition for those premiere slots. However, if a Zacks #1 Ranked company experiences any negative changes in their earnings estimates or other companies have stronger revisions, then the Zacks Rank may quickly turn lower for the stock. That is why we suggest that only short-term investors strictly adhere to the process of buying stocks ranked #1 and sell positions when the rank falls to #2 or below. Whereas longer term investors should use a more flexible approach with the Zacks Rank whereby they buy or add to existing positions in stocks ranked #1 and #2 and reduce holdings of stocks ranked #4 and #5. In short, it is important to recognize that the Zacks Rank is a short-term indicator of potential market out performance and must be used in that context.

Question 2: What value does the Zacks Rank have for a long-term investor?

Answer: As stated several times throughout this guide, the Zacks Rank is a wonderful indicator of a stocks performance relative to the market over the next 1-3 months. However, as we have tracked this phenomenon over the last 20+ years we discovered that many companies experience extended cycles of positive earnings momentum that leads to multiple consecutive quarters with a high Zacks Rank. Thus, one could effectively use the Zacks Rank to uncover profitable long-term holdings as well as short-term trading opportunities.

Let's illustrate. Think of a publicly traded company as a long freight train. This is a large entity with all of its energy pointing the train in one direction down the tracks. If all the people who work on the train are doing their job well, then it creates positive momentum and it will be hard to de-rail the train. This corresponds with a well-managed company that is generating exceptional profits quarter after quarter. Targeting these companies through the Zacks Rank can help you turn a short term play into a longer term investment.

Now lets look at the flip side of the coin with a train that is headed in the wrong direction. Mostly likely ineffective management strategies and poor execution led this train astray. Now imagine how much effort it takes, not only to stop this train, but to effectively turn it around in a positive direction. This corresponds to companies that have a chronic problem of missing or lowering earnings estimates. Rarely is this just a "one quarter" event as company management would lead you to believe. Thus, best to stay away from these companies that will show up in the Zacks #4 or $5 category until they can truly turn around and get the organization headed in the right direction as will be indicated by a Zacks Rank of 1 or 2.

Question 3: What is the difference between the Average Brokerage Recommendation (ABR) and the Zacks Rank?

Answer: Zacks displays the ABR for stocks for free on hundreds of leading investment web sites. The ABR is simply the calculated average of the actual recommendations by the brokerage firms for any given stock (strong buy, hold, sell etc). The ABR is also shown in a range between 1 and 5 like the Zacks Rank. However, you will generally see it displayed with decimals places (ex. 1.52) whereas the Zacks Rank is only shown in whole numbers (1,2,3 etc.). However, their differences go far beyond these cosmetic issues. In essence, the ABR is based off of brokerage firm stock recommendations, which have proven to be an unreliable indicator of a stocks performance. Note that only 8% of current brokerage recommendations are Sell or Strong Sell. That means that the remaining 92% are Strong Buy, Buy and Hold. Pretty scary when you consider the market was falling off a cliff the last 3 years and none of these guys was telling customers to sell their stocks. Further, there is no statistical proof that a Strong Buy is a better investment than a Buy or a Hold or even a Sell. Whereas the virtues of the Zacks Rank have been proven unequivocally over the last 15 years. Not to mention that we have just as many buy recommendations as sell recommendation in the Zacks Rank model. So, why pay attention to the ABR? Good question. Maybe that's why we give it away for free ;-)

Zacks Rank in Action – What Causes the Stocks to Rise

This is where the rubber meets the road. So far we have discussed all the elements individually, but now we will put the pieces together to see just how the Zacks Rank can alert you that a stock's price may be about to rise. To illustrate this process we will use an imaginary company; XYZ Corporation.

Step 1: Brokerage Analysts Start to Upwardly Revise Earnings Estimates

Maybe the "sell side" brokerage analysts saw something in a quarterly earnings report. Or maybe the notion came from meetings with management. Regardless, when the analysts sensed that things are going better than expected at XYZ Corp. they started to increase their earnings estimates for subsequent quarters. This information is then immediately sent to their clients ("buy-side" analysts and money managers) and yes, the folks at Zacks Investment Research.

Step 2: Daily Updating of the Zacks Rank- Your Personal Signal

Every night the 4 factors of the Zacks Rank are calculated and the whole universe is reclassified into their appropriate rank. Given the upward surge in EPS estimates for XYZ it is now a Zacks #1 Ranked stock. This important data is updated daily to our powerful institutional clients and to subscribers of ZacksAdvisor.com. We provide a weekly update for free on Zacks.com, which still gives you plenty of time to react as noted in Step 3.

Step 3: Institutional Money Starts Flowing into the Stock

Almost everyone will agree that the institutional investors (mutual funds, pension plans, money managers etc) have the greatest buying power to influence a stock's price. Well as previously noted, most of these institutional investors employ valuation models that use earnings estimates as a prime component. Thus, when they buy new research from the sell side brokerage analysts that says that EPS is going up for XYZ, then certainly their projected fair value for XYZ will also rise. So now these institutional investors want to purchase more of this undervalued security. However, since they have so much money to spend and don't want to run up the price on themselves, they end up accumulating shares over the coming weeks and months. This gives the individual investor plenty of time to sneak in ahead of the slower moving institutions to reap the rewards of the rising share price.

Step 4: Momentum & Technical Analysis Investors Jump on the Bandwagon

There is a vast legion of investors who employ charting and quantitative models that look for trends like a rising share price and the increase in daily trading activity to spot winning stocks. In general they believe that a stock on the rise will continue its ascent over the short-term. Therefore, given the impetus in the stock price and volume from the institutional investors in Step 3, these momentum and technical analysis investors may jump on board XYZ for a short-term profit and drive the price even further.

Step 5: Earnings Surprise

Nothing catapults a stock faster than a strong earnings surprise. And when you buy a Zacks #1 Rank stock you highly increase your chance of owning companies that will post a positive earnings surprise. That is because 2 of the 4 factors used in the Zacks Rank look for stocks with the strongest potential to post a positive earnings surprise (Upside and Surprise). So, in the case of XYZ Corporation's stock, you would certainly profit if they announced a stellar earnings report.

Step 6: Rinse and Repeat

If indeed XYZ Corporation posted an upside earnings surprise and gave solid guidance for the future, then it is very likely that this positive cycle will start all over again at Step 1. And that is how the short-term benefits of the Zacks Rank begin to carry over into a major benefit for long-term investors.

Conclusion

In many cases the Zacks Rank is the earliest possible signal you will receive about the future potential of a stock. And Zacks.com (and ZacksAdvisor.com) are the services designed to give the individual investor an edge in beating the street with this timely information. Please note that this chain of events also plays out when the Zacks Rank falls to a #4 or #5, but to the detriment of the share price (and your portfolio). So you can use any negative signal to sell or lower your exposure to a company whose rank has fallen.

Zacks Rank – A Tool For Every Investor

There are many different schools of investing. Yet the Zacks Rank has been proven effective for most of them due to its reliance on the two of the most important investment criteria; Earnings & Timeliness. Below we have grouped some of the major classes of investors. See how the Zacks Rank can help each group improve their investment results.

Value Investors

Value investors are looking for stocks selling at prices under their "fair value" and have the patience to wait for other investors to see the same inherent value that they do. Many value investors rely on earnings measures like P/E (price/earnings multiple) or PEG ratio (PE divided by growth rate) to figure out the fair value of a stock. The problem is always in estimating the fair value of a stock because many times it is truly in the eye of the beholder. Also, their return on investment (ROI) may be sapped as they wait endlessly for the stock to rise.

The key for value investors who turn to the Zacks Rank is our emphasis on earnings, which is the basis of most valuation models. Remember that every night Zacks ranks 4,000 stocks on the market to find those that have experienced the largest and most frequent earnings estimates revisions. When the Zacks Rank signals a "Strong Buy" or "Buy" (#1 or #2) it means that earnings estimates are going dramatically higher for a firm and most likely other investors will think it is undervalued given this new information. So, they jump in to run up the price of the stock. The beauty is that this is also a timeliness rating, which should help them shrink the holding period of the stock. i.e. They will reach fair value in a shorter period of time that helps them maximize their ROI.

Value investors may want to take one further step in their stock selection and that is to screen the #1 list for stocks with PEG's under 1.5. Rarely is a stock considered a value above this mark. On Zacks.com you will find one of the most robust stock screeners on the web. More details later on.

Long-term Investors

Long-term investors like to "buy and hold" the stocks in sound companies for a long time. They seek a company of value and virtue, which they believe will consistently report solid earnings pushing the share price ever higher. They do not worry as much about short-term volatility in the share price. The key ingredients for a long-term investor are the fundamentals like; earnings growth, strong management/leadership, excellent products, competitive strategy etc.

What is the most tangible proof that a company is worth holding for the long-term? Earnings. Or more specifically earnings growth. That is because a company that has strong management, excellent products etc. should be producing a steady stream of positive earnings. Here again earnings estimate revisions are the cornerstone of the Zacks Rank. Generally when you find positive earnings revisions you will find a company moving in the right direction and is a candidate for long-term ownership. (Also remember the example in the FAQ section about companies being like large freight trains. You want them headed in the right direction.)

Note that large-cap companies are usually best suited for long term ownership as they generate a steadier flow of earnings. Thus, you may want to narrow your focus to stocks ranked #1 and #2 with market caps above $10 billion.

Growth Investors

Growth investors are generally more aggressive in nature. They are looking for companies with high earnings growth potential, which should propel their stock price in the future. Growth stocks usually come with a bit more risk, since high earnings growth (generally considered about 20% a year) is hard to sustain over the long haul. And when the high growth dissipates, then the stock's shrivels up like a popped balloon.

Once again we find a group of investors that is focused on earnings. In particular companies that exhibit above average earnings growth (20% plus). By concentrating on the Zacks #1 Ranks you could easily screen for companies exhibiting these stellar growth rates. The best part is that the Zacks Rank will alert you at the earliest possible stage that future prospects for the firm are looking very bright, which generally leads to higher share prices. And just as importantly we will let you know of the first sign of earnings weakness so you can sell your position at the earliest possible stage to avoid unnecessary losses.

Momentum and Technical Analysis Investors

These folks are generally interested in turning short-term profits based on the general direction/momentum of the stock and changes in daily trading volume. Investors Business Daily (IBD) and other charting software providers are the biggest "torch-bearers" for this movement.

The Zacks Rank is a great fundamental companion to folks who rely on technical analysis and momentum because it tips them off before most other systems. Essentially we are talking about "cause and effect". The cause of the move is first sounded off by the Zacks Rank system that looks for positive revisions in earnings estimates. This upward shift in earnings estimates prompts more and more investors to find interest in the company with the effect being that the shares in the company start on a bull run. Volume increases, as does the stock price. However, if you were just to rely on technical analysis, then your chart would not show a buy signal 'til the rally already started. i.e. In many cases you will be able to get in right at the outset of the major move in the stock which will increase your total ROI on the trade. (To see how this happens refer back to Step 4 of "Zacks Rank in Action -What Causes Stocks to Rise" on page 10.)

Momentum and technical analysis investors should concentrate on stocks with a Zacks Rank of 1. More specifically, those stocks most recently added to the #1 list have the best chance to outperform the market over the next 1-3 months. Our strength in this category was best summed up by the Zacks customer below…

"Timeliness of (Zacks) stock recommendations. Can see the action unfold in Investors Business Daily vol.% leaders and losers almost to the day. Why? Where the action is!"

Thomas W. Morse
Seattle, WA

Zacks Rank – Limitations

For as powerful an investment tool as the Zacks Rank is, it is by no means fool proof. Below are listed the main limitations of the Zacks Rank. Without considering these potential shortfalls, then you may be apt to make poor investment decisions that greatly affect your personal wealth and that is the last thing we want to see happen. So, be sure to understand this section fully before you attempt to use the Zacks Rank to enhance your investment returns.

Performance Relative to the Market

The most powerful force affecting any individual stock is the movement of the overall market. As such it is very difficult for a stock to rise in the face of a bear market. We can see countless examples of this happening during the market downdraft since 2000. Thus, it is better to think of the Zacks Rank as an indication of a stocks relative performance to the overall market. For example, if the market is tumbling down then a #1 Ranked stock will most likely be down, but not as much as the overall market. And when the overall market is up, then a #5 ranked stock may very well be up, but not to the same degree as the average stock. Yet it is interesting to note that the Zacks #1 Ranked stocks overall did produce profits in 2000, 2001 and 2002 (+14.3%, +24.3% and +1.2% respectively during this bear market stretch.)

Short Term Indicator

With 15 years of data behind us we know conclusively that the effects of earnings estimate revisions are good for a 1-3 month time frame. This makes sense when you consider that every 3 months a company will provide a new round of earnings that wipes the slate clean on any previous announcements. Yet, even long term investors get caught up with the fever for wanting to own just #1 stocks. Unfortunately being long term and a #1 ranked zealot are not compatible. Remember that only the top 5% of companies receiving positive estimate revisions in the last 60 days will be a Zacks Rank of 1. There is pretty stiff competition for those slots in the top 5% and a company can be on today and be off tomorrow if another company receives stronger estimate revisions. However, that company that slipped out of the #1 ranked position may still be an excellent investment. So, long term investors should be comfortable with ownership of shares that are ranked between 1-3. Then use any slippages to #4 or #5 to trim or completely sell your position in the stock.

Blind to Everything, But 4 Measures

There are only 4 measures used to calculate the Zacks Rank. Three of the four measures look at analyst earnings estimate revisions; Agreement, Magnitude, and Upside. The fourth measure considers the size of the most recent earnings surprise. (Be sure to review this section starting on page 6). You will note there is no accommodation for other fundamental metrics such as P/E, book value, ROE, ROA, debt ratios, growth rates etc. Nor does it consider technical attributes such as recent changes in price or volume. Thus, in reality the Zacks Rank acts as an initial filter that provides a raw list of potentially successful investment candidates. With these raw lists you can do additional screening according to your own investment criteria. You will find a robust screener for free on Zacks.com that is perfect for this task.

Market Cap Bias

The larger the company, the more analysts are likely to cover the stock. The more analyst to cover the stock the tougher it is for the stock to score big on any of the 4 measures of the Zacks Rank. Thus, the list of Zacks #1 Ranked stocks will be over represented by small to mid cap stocks. That is why a large cap stock with a Zacks Rank of 2 is actually a very good thing and one with a Zacks Rank of 3 may still provide excellent upside potential relative to the overall market. Remember to keep a diversified portfolio that includes a mix of stocks by market cap and by industry (discussed further below).

Too Many Speculative Stocks

Speculative stocks (such as technology, internet and bio-tech) have the hardest to predict earnings outcomes. That's because small companies make up the bulk of the speculative stock universe and due to their size they do not get as much coverage by brokerage analysts. Further the uniqueness of their product lines makes revenue and profit predictions very difficult. When things go well for these companies, then the above attributes lead to exceptionally high scoring for the Zacks Rank. So, those who strictly adhere to the buying stocks Ranked #1 may end up having a disproportionate number of small growth companies in the tech, internet and bio-tech industries. At times that may be of benefit, but that has certainly not been the case since March 2000. Here again, the need to keep a diversified portfolio should always outweigh an investors desire to blindly invest in #1 stocks because you do not want to be severely over-weighted in any one sector.

Zacks.com – Profit from the Pros

Zacks.com was designed to help individuals become more successful investors by tapping into insights and recommendations from those rare few experts with a track record of beating the street. And that is why our motto is "*Profit from the Pros.*" The first step in the journey to help people Profit from the Pros was accomplished by making the Zacks Rank available to the public for the first time on the Zacks.com web site (after many years of just being available to professional investors and Wall Street insiders). We then added many additional features to the site to further empower individuals to research, select and track their investments more effectively. Below you will find a synopsis of the main features of the Zacks.com web site that you can use to become a more successful investor.

Zacks #1 Ranked List – Updated Weekly

Every Monday we will keep you posted of all the new additions and deletions to the Zacks #1 Ranked list. You can see this list in full and broken down by industry. You will definitely want to be up to date on the changes on this exclusive list. http://www.zacks.com/portfolios/rank/1rank.php

Profit from the Pros – Weekly E-mails

We have 3 free weekly Profit from the Pros emails that encapsulate the best information available from Zacks.com. Here is the essence of each version.

Profit from the Pros: The Zacks Way - This version will concentrate on exclusive strategies from Zacks Investment Research. These time-tested models rely heavily on earnings estimate revisions and the Zacks Rank to select winning stocks. Expect delivery before market opens on Wednesdays.

Profit from the Pros: Best of Wall Street I and II - Zacks uncovers those rare few investment experts with track records of beating the street and brings their insights to you. Version 1 should arrive before the market opens on Tuesdays and Version II early am on Thursdays..

If you do not already receive these e-mails, then register for free at http://register.zacks.com/step1.php?

Personal Portfolio Tracker & Daily E-mail Update

Once you begin to understand the power of earnings estimate revisions, then you will want to keep informed of every change in estimates for the stocks you follow. And that is why Zacks.com makes available to you one of the most robust Personal Portfolio Trackers on the web to stay on top all the pertinent information that really has an effect on your investments. When you establish a personal portfolio on our web site it also kicks into motion our Daily E-mail Update feature. This e-mail will be your early morning wake up call that quickly spells out any changes in earnings estimates, Zacks Rank or brokerage recommendations for the stocks you follow so that you readily know what moves you need to make that day to stay one step ahead of the market. (Note that we have created a "Daily Update View" on our Personal Portfolio tracker so that you can see all the important data pile up in real time and not have to wait for the Daily E-mail Update to arrive in your in-box). Get started at: http://www.zacks.com/portfolios/myport.

Screening for Stocks

Zacks created the first and best screening system on the web and that's what earned us the distinction as the "*#1 site for screening stocks*" by Money Magazine. With our online custom stock Screening, you can sift through over 4,000 stocks using the Zacks Rank and up to 95 other variables – many of which are unique to Zacks and can identify stocks that will outperform:

- Estimate revisions
- EPS surprises
- Changes in broker recommendations
- And just about every fundamental metric you can think of

In addition, we have created many predefined screens that give you "one-click" access to stocks that meet certain investing criteria. Instructions for this exclusive Screening tool can be found on the Zacks.com site. Start screening today at: http://www.zacks.com/research/screening.

Research. Research. Research

Zacks is famous for the value of its investment research and when it comes to research options on the Zacks.com web site, you will certainly not be disappointed. Simply go to www.Zacks.com and put in the ticker symbol for any stock you want, select the report option, then click GO.

Almost all the report options will provide you with the Zacks Rank, but you should certainly go the extra mile to see all the individual estimates that were used to compute the Zacks Rank. You can find all these individual estimates in the "Detailed Estimates" report. Once there you will find each individual estimate for the stock in question. Remember you want to own stocks where the most recent estimates are higher than previous estimates. No better place to see that in action, then on this unique report.

Much, Much More

It would take far too long to list all the tools that are available to you on Zacks.com. What's important to note is that we provide the necessary tools to be a successful investor. That's why we have won so many awards from prestigious reviewers like Online Investor and Forbes "Best of Web". Do yourself a favor and start using the resources on the site and see what a difference it makes in your investing performance. http://www.Zacks.com

Other Zacks Services

Ahead of the Market – Book by Mitch Zacks published 2003

Dig deeper into the Zacks Rank philosophy with this in-depth strategy book by Mitch Zacks. Learn how to put the Zacks Rank to use to profit in both good markets…and bad. Then learn 7 other investment strategies that have been proven to beat the market. Find more details at: http://woas.zacks.com/adv/zim/aheadmarket-amazon.html.

Zacks Advisor – www.ZacksAdvisor.com

If you understand the power of the Zacks Rank and earnings estimate revisions, but want an expert to help you select the best stocks on the list, then look no further. The Zacks Advisor is the best way to share with you the insights of Ben Zacks; the man SmartMoney describes as ''tougher than Wall Street...and often more accurate." Ben Zacks is one of the most listened to and respected experts on Wall Street. He is co-founder of Zacks Investment Research and helped create the proprietary Zacks' Rank stock picking system that is the cornerstone investment philosophy used in this exclusive service.

Since it's inception in March of 1996, the Zacks Advisor's stock recommendation portfolios have generated amazing results for our subscribers.

* Timely Buys: List of stocks to outperform the market over the next 1-3 months. This

portfolio has posted gains of 727.1% since inception (671.6% better than the S&P 500).

* Focus List: These stocks are hand-picked by Ben Zacks to outperform the market over the next 12 months. According to independent industry watchdog, Hulbert Financial Digest, the Zacks Focus List shows an average annual gain of +13.1% versus a +7.5 for the Wilshire 5000 index (this index is generally considered the best proxy for the overall market).

The Zacks Advisor is much more than a monthly newsletter. With your subscription comes full access to the exclusive web site at ZacksAdvisor.com. There you will find daily commentaries and stock recommendations to help you invest more successfully in any market environment. Also, you will get a daily update of the Zacks Rank for all stocks that we cover. This daily feed was previously only available to professional investors.
Do yourself a favor. Start a free trial to the Zacks Advisor today to realize more success with your investing for many years to come. Just go to www.ZacksAdvisor.com and sign up for a free trial today.

Zacks Advantage Program

Need help managing your money using the Zacks investment philosophy? Then perhaps you should learn more about the Zacks Advantage Program (ZAP) where Ben Zacks, President and Co-Founder of Zacks Investment Management, will manage your money through our innovative separately managed account program.

This offers you all the benefits of diversification and outstanding performance, along with a flexible portfolio to help you reach your investment goals during this uncertain time. To learn more about how to invest with Zacks Advantage Program go to: http://www.zacks.com/zapinquiry.html.

Zacks Expert Advice

The concept for this site was borne in 2000 when the market started to fizzle. It was a time when many individual investors began to learn that investing their hard earned money was not something to toy around with.

From years of experience we realized that to be a successful investor people need advice from professionals with a track record of beating the street in good markets…and especially in bad ones. That is why Zacks Investment Research has assembled the best investment experts in the business to offer their powerful advisory newsletters to you on all the major investment topics; Stocks, Mutual Funds, Bonds, Options, Futures etc. And best of all you can set up 30 day free trials on each of these newsletters to insure that you find the one that best meets your investment needs.

Zacks Expert Advice was launched in May 2001 and has been a tremendous success since. You can get there anytime from the Zacks.com home page or go their directly at: http://www.zacks.com/experts.

Zacks Brokerage Research Report Service

As noted at the beginning, Zacks has relationships with over 250 brokerage firms. We have partnered with many of them to make their exclusive in-depth research reports available to our customers. Some are free and others are priced at reasonable levels. We have created several ways for you to search through our catalog of available research reports. The place to start is on the Zacks.com home page in the upper left hand corner where you will find the entry point to this valuable service. Or just click here: http://www.zacks.com/research/reports.

Conclusion

The Zacks Rank has literally earned billions of dollars in profits for investors over the last 15 years. We hope that you enjoyed this guide and will start to use the tools available to you on our web sites in order to invest more successfully yourself in the months and years ahead. The End.