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## ProfitCents site a big help to stock pickers

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The last thing most of us want to do is spend our days analyzing financial statements, even though we know it would help us pick better stocks. If you're in that category, here's some good news: ProfitCents ( [www.profitcents.com](http://www.profitcents.com)) will do the heavy lifting for you.

Run by Sageworks in Raleigh, N.C., ProfitCents is a free service that, except for banks and other financial institutions, analyzes just about any company's financial condition. Sageworks' business is providing financial analysis reports to accountants and banks, and ProfitCents applies the same analytic tools to publicly traded stocks.

ProfitCents grades each company in five categories: liquidity, profits and profitability, borrowing, assets and value. Except for value, these are the same factors that many professionals scrutinize to predict whether a firm is likely to outperform or underperform market expectations when it next reports its quarterly results. That's important information because stocks generally move up when they report quarterly results that beat analysts' forecasts and down if they don't.

The grades for each category run from one to five stars, where five is best. ProfitCents uses the most recent financial statements filed with the Securities and Exchange Commission.

I ran a quick and admittedly unscientific analysis that convinced me that ProfitCents' analyses are worth your attention. On Wednesday, I listed 16 companies that reported quarterly results that morning and had clearly outperformed or underperformed market expectations. Nine had beaten analysts' forecasts and seven had fallen short.

For each company, I checked ProfitCents' score based on each firm's previous quarterly data (usually September 2008) compared with year-ago figures. I averaged the scores for each of the five categories for each company. The scores for the nine stocks that beat forecasts averaged 3 stars compared with 2.4 for stocks that fell short.

ProfitCents tends to penalize borrowing, even if a company has plenty of cash and only incidental debt. If I modified the "borrowing" score to give five stars to stocks whose cash in the bank exceeds total liabilities, it brought the average score up to 3.2 stars for the nine winners.

I evaluated ProfitCents' ratings strictly for their power to predict whether a stock is likely to exceed or fall short of current quarter analysts' forecasts. From that perspective, the ratings showed promise.

That said, the ratings are not the holy grail. Consider them just one more tool.

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