

Blue chips? Only in name

Our lack of interest in some of the most popular stocks inspires questions from subscribers:

Q *Why does the Forecasts hate popular, blue-chip stocks?*

A We don't hate blue-chip stocks. We do have reasons for excluding many stocks investors perceive as blue chips, most importantly poor scores in our Quadrix® stock-rating system. With few exceptions, the 10 popular stocks in the table at right earn middling Overall scores. The *Forecasts* uses a disciplined, consistent methodology for selecting stocks, with the Overall score a key component. We focus on stocks scoring at least 80 Overall, and preferably above 90. A stock earning a 50 is unlikely to be selected as a Buy or Long-Term Buy, no matter how many individuals consider it a blue chip.

Another reason for exclusion is lack of catalysts. Catalysts can be new products, management changes, financial engineering (big dividend boosts or stock buybacks), or simply the potential to outperform Wall Street's profit expectations. Because so many analysts and investors follow blue chips, they may have limited ability to surprise.

Q *Do you avoid blue chips because they are already popular?*

A Many widely owned stocks face headwinds. In simplest terms, if a lot of people already love a stock, fewer are left to buy it and push the price higher. However, there are exceptions, Apple chief among them. We see plenty of upside locked up in its solid operating momentum, cash-heavy financial position, and potential catalysts in the form of new products and oversized dividend increases and stock buybacks.

Q *Several of these consensus blue chips have underperformed in recent years. Should I sell them?*

A If you seek to maximize expected returns over the next 12 months, the *Forecasts* recommends you stick to our Buy-rated stocks. If we don't rate your blue chip a Buy, don't hesitate to sell it and buy our recommendations.

The *Forecasts* selects Buy-rated stocks based on their return potential over the next 12 months. That doesn't mean we automatically sell after holding for 12 months — we have had some stocks on our Buy List for years. For Long-Term Buys, we consider total-return potential over the next 24 to 48 months.

Q *If I've held my blue chip for 20 years and have big embedded capital gains, should I sell anyway?*

A Because we can't know the tax situations of all our subscribers, the *Forecasts* recommends stocks solely on their investment merit. Obviously, taxes matter, but far too often taxes drive investment decisions to the detriment of investors.

Of course, not all blue chip companies with Overall scores below 80 are bad stocks. Hundreds of the more than 5,000 U.S.-traded stocks represent worthwhile investments. But the *Forecasts* doesn't simply seek worthwhile stocks.

Instead we seek those 25 to 40 stocks that provide the best opportunities. Investors have a finite amount of money to invest. Tie funds up in blue chips that used to perform well but no longer look good, and you may weaken your portfolio.