Stock Selection and Analysis Based on Valuation, Growth, Profitability and Payout

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Abstract. Stock investing is an enduring topic in finance. Investors choose stocks in order to obtain expected investment returns, but this investment return comes at the expense of investors taking the corresponding risks. Carrying out stock investment analysis is beneficial to reduce the blindness of investment decisions, thereby improving the scientific nature of investment decisions. Investors choose different stock portfolios through stock investment analysis to help reduce investment risks. This article will take some perspectives from the fundamental analysis school and the technical analysis school to conduct investment analysis on some US stocks, and screen out the best stock. Primarily, this study will determine the principle of stock selection, which is to choose the optimal solution by integrating valuation, growth, profitability and dividend. Then, according to the above principles, different indicators will be chosen. By comparing the pros and cons of indicators, the best stock is identified in the selected sample, Meritage Home Corp. It has also performed as expected, maintaining a good upward trend in the context of the decline in the stock market. According to the analysis in the context of the raging new crown epidemic and the shrinking global economy, combining the theories of the fundamental analysis school and the technical analysis school can be regarded as a good method for stock investment analysis. These results shed light on the best principles of stock selection, which is beneficial to reduce investment risks, and improve the investment behavior of investors.

Keywords: Stock investing; investment analysis; indicators.

1. Introduction

Stocks were born in the 15th century in the era of great seafaring, and their original purpose was to raise funds and share capital for voyage trade [1]. In the 17th century, the Netherlands established the world's first stock exchange, the Amsterdam Stock Exchange, which made shares freely transferable. In 1773, the first stock exchange in Britain was established, and in 1792, 24 brokers from New York co-founded the New York Stock Exchange at No. 11 Wall Street [2], which was later known as the New York Stock Exchange. In 1884, the founder of the Dow Jones Company, Charles Henry Dow, compiled the prototype of a stock price index that reflects changes in stock prices, the Dow Jones stock price average [3]. After hundreds of years of development and regulation, the mechanism of the stock market and the corresponding laws have been continuously improved, and the theory of stock investment analysis has emerged as the times require, and developed many different branches.

Some scholars argue that playing stocks is tantamount to surviving in a crocodile pond, this analogy couldn't be more appropriate. Investing in stocks not only requires extraordinary courage and vision, but "cunning" is even more critical. Reasonable stock investment analysis method is the key to survival in the stock market. Stock investment analysis refers to people's comprehensive analysis of various information affecting stock value or price through various professional analysis methods to judge the behavior of stock value or price and its changes, which is an indispensable part of the stock investment process.

Stock investment analysis is conducive to improving the scientific nature of investment decisions [4]. Investment decision-making runs through the entire investment process, and whether it is correct or not is related to the success or failure of investment. Although different investors may have different investment decisions, scientific investment decisions will undoubtedly help ensure the correctness of investment decisions. Carrying out stock investment analysis is beneficial to reduce the blindness of investment decisions, reduce unnecessary errors, and improve the scientific nature of investment decisions.

Stock investment analysis can help investors correctly evaluate the investment value of stocks. Value is at the heart of the fundamental analysis school, where investment decisions are made by comparing the price of a stock with the value of a business. The investment value of stocks is affected by many factors, and changes accordingly as these factors change. Stock investment analysis judges the impact of these factors and their changes on the stock investment value by comprehensively analyzing various factors that may affect the stock investment value. Therefore, it is helpful for investors to correctly evaluate the stock investment value.

Stock investment analysis is conducive to reducing the investment risk of investors [5]. Investors invest in stocks in order to obtain an investment return (expected return), but this return comes at the cost of taking the corresponding risk. Overall, there is a positive relationship between expected return levels and risk. The higher the expected return level, the greater the risk the investor has to take; while the lower the expected return level, the less risk the investor has to take. Investors choose different stock portfolios through stock investment analysis to help reduce investment risks.

Scientific stock investment analysis is the key for investors to obtain investment success. The purpose of stock investment is to maximize the net utility of stock investment (that is, the positive utility of income minus the negative utility of risk). Therefore, the pursuit of maximization of investment returns under the conditions of a given risk and the minimization of risks under the conditions of a given rate of return are the two specific goals of stock investment. Stock investment analysis adopts professional analysis methods and analysis methods such as fundamental analysis and technical analysis, and reveals its mechanism of action and certain laws by objectively, comprehensively and systematically analyzing effective factors that affect stock returns and risks. It can ensure higher investment returns while reducing investment risks.

With the rapid development of today's stock investment activities, four major schools of analysis have gradually formed, and more may appear in the future. The Fundamental Analysis School refers to the school of investment analysis that takes the basic financial data of listed companies as the basis for investment analysis and investment decision-making [6]. It is based on the theory of value analysis, with statistical methods and present value calculation methods as the basic characteristics of the main analysis methods. They believe that the value of a stock determines its price, and the price of a stock fluctuates around the value, and has formed the value school and the growth school around two different valuation models. The Technical Analysis School takes market transactions as the core, and makes buying and selling decisions based on information such as price, trading volume, time (wavelength), and space (volatility) [7]. Its logical starting point is composed of two viewpoints:

- What is actual is rational. It means that the information of market transactions contains all the information of the security itself, so investors only need to analyze the transaction information, not the fundamentals.
- There is nothing new under the sun. Human behavior patterns will continue to repeat, and past behavior will predict the future.

Psychological analysis school refers to the analysis of stock prices based on market psychology, emphasizing that market psychology is the most important factor affecting stock prices. The factors that contribute to stock price changes are mainly the market's confidence in the future stock market. Famous stock investors and economist in history (e.g., Keynes and Soros) are masters of market psychology. "Castle in the Air Theory" is the most important theory in the psychoanalytic school, and "Beauty Pageant Theory" is also one of its main branches [8]. The school of portfolio analysis refers to the method of determining the optimal portfolio of investors and carrying out portfolio management based on the common preferences of investors for yield and risk as well as the individual preferences of investors. For the traditional portfolio management theory, diversifying the portfolio to effectively reduce the unsystematic risk is the theoretical basis of portfolio analysis. For modern portfolio management theory, Markowitz's mean-variance model is the primary theoretical basis for portfolio analysis, Sharp's "single-factor model", "multi-factor model" and Sharpe, Treynor, Jensen's capital assets pricing model (CAPM) and Ross' arbitrage pricing model (APT) further expand the theoretical basis of the method in practice.

Due to the elusiveness of investor psychology and the fact that the research direction of this paper is not the investment portfolio, the methods of the latter two schools were abandoned. The study decided to use the viewpoints of the fundamental analysis school as the main basis, and absorb some of the theories of the technical school as a supplement to conduct investment analysis on the selected samples and choose the best stock. Besides, this study observes its follow-up performance to check if it matches this article's conclusions. This article will divide stocks into four aspects for comparison and ranking, namely valuation, growth, profitability and payout. These four aspects correspond to different indicators, and the ranking order is determined by comparing the pros and cons of the indicators. At the end each aspect is weighted and the total score is calculated. Meanwhile, the impact of policies and the international situation will be considered.

2. Data & Method

2.1 Data

First, this study selected 15 outperforming stocks from nearly 5,000 US stocks based on the four basic principles of valuation, growth, profitability and payout. Then we're going to pick the best one of these 15 stocks. The time frame is from 2017 to the first or second or third quarter of 2022 (depending on the company's financial report). The 15 stocks are: Apple (AAPL), Accenture (ACN.N), Amazon (AMZN.O), Berkshire Hathaway (BRK.B), Domino's Pizza (DPZ), Intuit (INTU.O), Johnson & Johnson (J&J), The Joint Chiropractic (JYNT.O), MDC Holding, Inc. (MDC.N), Medifast, Nature's Sunshine Products (NATR.O), Ocean Bio-Chem Inc (OBCI.O), Proctor & Gamble (PG.N), United Parcel Service, Inc. (UPS.N) and Zoom (ZM.O). The research data comes from Compustat and Eastmoney, and some indicators are calculated accordingly.

2.2 Indicators

The indicators are classified into four aspects: valuation, growth, profitability and payout. As for valuation [9], it has following subsets:

- Price Earnings Ratio (P/E). It is an important indicator to measure the value of stock investment, P/E ratio = Price per Share (or closing price) / EPS (Earnings per share) [10].
- Price-to-sales (P/S). For mature companies, P/E is usually used for valuation, while for high-growth companies that are not yet profitable, P/S is more reliable [11].
- EV/EBITDA. It is a widely used business valuation indicator. Compared with P/E and P/S, its advantage is that it is not affected by tax and capital structure. In general, the lower the better within a reasonable range [12].
- Debt to assess ratio. It is one of the most important indicators to measure the solvency and risk of an enterprise, which varies from different industries and should not be too high or low.

Growth indicators include EPS Growth, EBITDA Growth and Revenue Growth. The calculation method is to divide the data of the current year by the data of the previous year, and finally summarize the data from 2017 to 2021. Due to changes in U.S. economic policy and changes in the international situation, data for 2022 are listed separately. In order to pursue timeliness, the cumulative abnormal return (CAR) of 2022 [13] will be introduced. Because of the sluggish U.S. stock market in 2022, CAR of 2022 will be the most important indicator to measure the ability of growth.

Regarding to profitability, it has following subsets:

- Gross profit margin. It is an indicator of whether a company's product is competitive in the market. Gross profit margin is not as high as possible, it depends on the industry.
- Net profit margin. It is the most important indicator to measure the profitability and core competitiveness of enterprises. The higher the net profit margin, the better the company.

- Return on Total Assets. It is another very useful indicator of the profitability of a company.
- Return on Invested Capital(ROIC). a high ROIC means that a business can generate higher returns with less invested capital.

As for Payout, it has following subsets:

- Dividend Yield. In investment practice, the dividend rate is one of the important yardsticks to measure whether a company has investment value.
- Dividend per Share (DPS). Investors prefer stocks with high DPS, because the higher the indicator value, the stronger the profitability is.

2.3 Method

This research screens the stocks using the exclusion method, and finally select the best one from the "survivors". At first, this study evaluates the validity and accuracy of the data. Stocks that behave "dishonestly" on the data will be excluded in the first place. According to the order of growth, valuation, profitability and payout, the stocks are excluded in turn. After picking the best stock, it will be compared with those in the same industry. Finally, a summary based on its recent stock market behavior will be given.

3. Results & Discussion

3.1 Selection results

In fact, the best stock to invest in is the Ocean Bio-Chem Inc (OBCI). The reasons are as followed. It must be applaud what Berkshire Hathaway has accomplished over these years. The financial data on this stock are fantastic, unbelievably attractive, and even extremely ridiculous. According to its financial statements, with a price-earnings ratio of 0.02 and an annualized EPS exceeding 50 times the stock price, BRK.B has become the most profitable project in the world, even surpassing the drug trade. In other indicators, including price-to-sales ratio, EV/EBITDA, etc., BRK.B is also the best. The related results are shown in Table. 1.

Table. 1 Valuation of the selected stocks

	EPS($)(annual)	P/E(annual)	P/S(LYR)	EV/EBITDA(2021)	Asset-liability ratio
AAPL（2022Q2）	7.30	20.68	6.87	21.20601847	80.78%
ACN.N（2022Q3)	10.97	25.52	3.79	26.95162408	52.25%
AMZN.O(2022Q1)	-30.24	-3.91	2.65	39.3561559	67.38%
BRK.B(2022Q1)	14,808.00	0.02	1.04	7.565438681	46.69%
BRK.A(2022Q1)	14,808.00	28.71	0.75	7.565438681	46.69%
DPZ(2022Q1)	10.12	40.54	3.30	30.40598612	350.81%
INTU.O(2022Q3)	10.13	39.85	12.73	50.91467626	40.52%
J&J(2022Q1)	7.84	21.90	4.72	16.33671922	58.11%
JYNT.O(2022Q1)	-0.04	-389.25	3.01	85.72864243	65.04%
MDC.N(2022Q1)	8.36	4.38	-	7.116085523	46.41%
MEDIFAST(2022Q1)	14.48	12.00	1.33	11.32837101	48.74%
NATR.O(2022Q1)	-0.60	-18.47	0.48	8.133797488	37.24%
OBCI.O(2022Q1)	0.56	23.14	1.92	6.719263525	21.90%
PG.N(2022Q1)	6.35	22.70	4.44	18.55381249	61.95%
UPS.N(2022Q1)	12.20	15.23	1.68	14.28466712	77.99%
ZM.O(2022Q1)	1.52	67.63	8.07	36.03750449	25.25%

However, the data above are false and fake. As a matter of fact, as two different stocks, the financial statements of BRK.A and BRK.B are the same, while the price of the former is 1,500 times higher than that of the latter. Replacing BRK.B with BRK.A, this stock loses its overwhelming advantages. Subseuquently, it is decided to remove it from the list due to its dishonest behavior. The ability to grow in the future is also one of the most critical factors in whether a stock is worth investing in. Unfortunately, because of changes in world conditions and U.S. financial policy in recent years, the previous data is no longer appropriate. To be precise, it cannot be used as the decisive factor, but as a reference. The results refer to Table. 2.

Table. 2 Growth of the selected stocks from 2017 to 2021

	EPS (2017-2021)	EBITDA (2017-2021)	Revenue (2017-2021)	CAR (2022)
AAPL	-32.49%	73.56%	70.08%	9.22%
ACN.N	42.02%	52.47%	45.22%	-7.88%
AMZN.O	1222.65%	346.57%	245.49%	-5.14%
BRK.B	306.15%	177.52%	58.60%	18.79%
BRK.A	306.15%	177.52%	58.60%	18.28%
DPZ	214.88%	73.38%	76.22%	-2.93%
INTU.O	180.39%	112.75%	617.59%	-13.00%
J&J	14.12%	4.72%	85.44%	25.61%
JYNT.O	8098.67%	4790.67%	293.98%	-52.31%
MDC.N	278.00%	113.11%	484.78%	-11.22%
MEDIFAST	526.34%	479.71%	701.63%	8.44%
NATR.O	-1367.35%	6509.33%	158.60%	-16.16%
OBCI.O	68.97%	342.89%	178.18%	74.47%
PG. N	5.83%	38.81%	50.81%	12.98%
UPS.N	91.83%	-65.55%	1825.44%	12.02%
ZM. O	4900.00%	3944.24%	558.45%	-20.15%

Table. 3 Valuation of the selected stocks

	EPS($) (annual)	P/E (annual)	P/S (LYR)	EV/EBITDA (2021)	Asset-liability ratio	On the list?
AAPL（2022Q2）	7.30	20.68	6.87	21.20601847	80.78%	✓
ACN.N（2022Q3)	10.97	25.52	3.79	26.95162408	52.25%	✓
AMZN.O(2022Q1)	-30.24	-3.91	2.65	39.3561559	67.38%	✓
BRK.B(2022Q1)	14,808.00	0.02	1.04	7.565438681	46.69%	×
BRK.A(2022Q1)	14,808.00	28.71	0.75	7.565438681	46.69%	×
DPZ(2022Q1)	10.12	40.54	3.30	30.40598612	350.81%	✓
INTU.O(2022Q3)	10.13	39.85	12.73	50.91467626	40.52%	×
J&J(2022Q1)	7.84	21.90	4.72	16.33671922	58.11%	✓
JYNT.O(2022Q1)	-0.04	-389.25	3.01	85.72864243	65.04%	×
MDC.N(2022Q1)	8.36	4.38	-	7.116085523	46.41%	×
MEDIFAST(2022Q1)	14.48	12.00	1.33	11.32837101	48.74%	✓
NATR.O(2022Q1)	-0.60	-18.47	0.48	8.133797488	37.24%	×
OBCI.O(2022Q1)	0.56	23.14	1.92	6.719263525	21.90%	✓
PG.N(2022Q1)	6.35	22.70	4.44	18.55381249	61.95%	✓
UPS.N(2022Q1)	12.20	15.23	1.68	14.28466712	77.99%	✓
ZM.O(2022Q1)	1.52	67.63	8.07	36.03750449	25.25%	×

Note: the stocks signed “×” will not join the competition

There is no doubt that Ocean Bio-Chem Inc is the goat in terms of growth. It has risen by an amazing 50% against the backdrop of a 25% decline in the broader market index. However, clearly, whether a stock is worth buying doesn't just depend on growth, especially when the others are rising too. One thing's for sure, though, it's time for those negative growth stocks to be sold off. All stocks with a CAR index below 10% will be abandoned. It is worth mentioning that several stocks that have grown rapidly in the past five years have suffered waterloo in 2022, including Joint Corp, Nature’s Sunshine Prods Inc and Zoom, which has to be a pity. After previous rounds of screening, several stocks have already been eliminated. Now, it's time for the Valuation competition. The comparison results of valuation refer to Table 3.

Since the P/E of some stocks is negative, the price-to-sales ratio (P/S) was introduced into the article as reference data. From the table above, it can be noticed that the data of some companies is very nice, but their stocks are so weak that they were eliminated early. What this has explained is that even if the company's financial metrics are good, weak stocks are not worth investing in. Stock with the best valuation indicators should be the M.D.C Holding Inc, but unfortunately it is already out. As a result, the research suggests that Medifast comes first while UPS comes second, and the third choice is OBCI. As for the Amazon (AMZN), this stock is in the red and the indicators aren't great, which led to its out. Likewise, the horrible debt to asset ratio disqualifies DPZ from the competition. Now, it's time to compete for profitability. The comparison results are as shown in Table. 4.

Table. 4 Profitability of the selected stocks

	Gross profit margin	Net profit margin	ROTA	ROIC	On the list?
AAPL（2022Q2）	43.76%	26.96%	17.00%	18.68%	✓
ACN.N（2022Q3)	31.96%	11.47%	11.68%	14.24%	✓
AMZN.O(2022Q1)	42.89%	-3.30%	-0.92%	-1.01%	×
BRK.B(2022Q1)	-	8.11%	0.57%	0.61%	×
BRK.A(2022Q1)	-	8.11%	0.57%	0.61%	×
DPZ (2022Q1)	-	9.00%	5.44%	6.00%	×
INTU.O(2022Q3)	83.45%	20.58%	9.64%	11.19%	×
J&J(2022Q1)	67.57%	21.98%	2.86%	3.07%	✓
JYNT.O(2022Q1)	89.69%	-0.92%	-0.24%	-0.31%	×
MDC.N(2022Q1)	25.67%	11.96%	2.96%	3.28%	×
MEDIFAST (2022Q1)	72.39%	10.01%	10.19%	13.98%	✓
NATR.O(2022Q1)	68.81%	-2.43%	-1.19%	-1.74%	×
OBCI.O(2022Q1)	37.18%	10.20%	2.13%	2.61%	✓
PG. N(2022Q1)	48.32%	19.34%	9.76%	10.62%	✓
UPS.N(2022Q1)	100.00%	10.92%	3.82%	4.55%	✓
ZM. O(2022Q1)	75.62%	10.58%	1.47%	1.74%	×

Table 5. The Dividend Yield and DPS

	Dividend Yield（2021）	Dividend Per Share（2021）	On the list?
AAPL（2022Q2）	0.62%	0.87850417	✓
ACN.N（2022Q3)	1.09%	3.674174084	✓
AMZN.O(2022Q1)	-	-	×
BRK.B(2022Q1)	-	-	×
BRK.A(2022Q1)	-	-	×
DPZ (2022Q1)	0.68%	3.862637667	×
INTU.O(2022Q3)	0.45%	2.382564459	×
J&J(2022Q1)	2.45%	4.196328213	✓
JYNT.O(2022Q1)	-	-	×
MDC.N(2022Q1)	2.99%	1.667544009	×
MEDIFAST (2022Q1)	2.77%	5.795911326	✓
NATR.O(2022Q1)	5.44%	1.006793754	×
OBCI.O(2022Q1)	1.38%	0.119844276	✓
PG. N(2022Q1)	2.45%	3.30081088	✓
UPS.N(2022Q1)	1.93%	4.143957687	×
ZM. O(2022Q1)	-	-	×

Undoubtedly, Apple's net profit margin is the highest of all the companies on the list, which earns it a relatively high score in the competition. However, its competitors' net margins are satisfied, except for UPS. Although Apple also has an overwhelming advantage in other profitability indicators, that doesn't mean its stock makes more money for investors. Perhaps Apple has the brightest future, but its stock may not. In this round of competition, UPS was eliminated due to poor profitability. Compared with other indicators, the ability of stock dividends is a more intuitive performance. The results are summarized in Table. 5.

None of the remaining 6 stocks on the list have high dividend yields. To add to the confusion, the highest dividend yield is the MEDIFAST, which also has good performance in valuation. But there is a very real problem, payout is equivalent to converting earnings into cash, which cannot offset the gap between Medifast and OBCI in growth. To be honest, it is a hard decision to choose the Ocean Bio-Chem Inc as the best stock but not the Medifast. Although Medifast is excellent, the Ocean Bio-Chem Inc's performance is a miracle. Under the unfavorable factors such as the downturn in the stock market brought about by the new crown epidemic, the Fed raising interest rates [14], and the fading of the Trump administration's stock market policy [15], the Ocean Bio-Chem Inc unbelievably rose 50%, which made the above decision. It's not that Medifast is not good enough to be selected, it can only be said that the opponent is too strong.

3.2 Comparison with stocks of the same industry

To test the conclusions, the OBCI's competitors in the same industry are utilized for comparison. They are WD-40 Co (WDFC), the Clorox Company (CLX.N), Oil-Dri Corporation of America (ODC.N) and Central Garden (CENTA.O) respectively. The principles of comparison are consistent, which includes four aspects: valuation, growth, profitability and payout. Meanwhile, the comparison indicators are also the same. The comparsion results are given in Tables. 6~9.

Table 6. Valuation of stocks in the same industry.

	EPS($) (annual)	P/E (annual)	P/S (LYR)	EV/EBITDA (2021)	debt to asset ratio	Comprehensive Ranking
OBCI.O(2022Q1)	0.56	23.14	1.92	6.719263525	21.90%	1
WDFC(2022Q3)	5.11	35.51	5.74	35.77037002	54.51%	4
CLX.N(2021)	3.75	39.10	2.58	19.15901797	88.16%	5
ODC.N(2022Q2)	0.78	39.74	0.62	11.30477456	37.99%	3
CENTA.O(2022Q2)	2.94	14.20	0.52	11.53754588	61.35%	2

Table 7. Growth of stocks in the same industry.

	EPS Growth (2017-2021)	EBITDA Growth (2017-2021)	Revenue Growth (2017-2021)	Share price increase (2022)	CAR (2022)	Ranking
OBCI.O(2022Q1)	68.97%	342.89%	178.18%	50.52%	74.47%	1
WDFC(2022Q3)	39.84%	23.19%	28.22%	-24.98%	-1.03%	5
CLX.N(2021)	13.41%	17.61%	27.43%	-14.02%	9.93%	4
ODC.N(2022Q2)	-21.39%	-1.42%	16.27%	-2.45%	21.50%	-
CENTA.O(2022Q2)	216.09%	96.56%	80.63%	-12.77%	11.18%	-

Table 8. Profitability of stocks in the same industry.

	Gross profit margin	Net profit margin	ROTA	ROIC	Comprehensive Ranking
OBCI.O(2022Q1)	37.18%	10.20%	2.13%	2.61%	2
WDFC(2022Q3)	49.68%	13.53%	12.23%	14.34%	1
CLX.N(2021)	35.81%	6.63%	7.40%	7.94%	3
ODC.N(2022Q2)	17.33%	1.51%	1.09%	1.23%	5
CENTA.O(2022Q2)	30.02%	4.92%	2.43%	2.63%	4

Table 9. Payout of stocks in the same industry.

	Dividend Yield（2021）	Dividend Per Share（2021）	Comprehensive Ranking
OBCI.O(2022Q1)	0.119844276	1.39%	4
WDFC(2022Q3)	2.788314246	1.15%	3
CLX.N(2021)	4.593582017	2.69%	2
ODC.N(2022Q2)	0.977085861	3.07%	1
CENTA.O(2022Q2)	-	-	5

Obviously, although Ocean Bio-Chem Inc's performance in payout is unsatisfactory, it is impeccable in other aspects, which makes it beat other opponents without any suspense. Therefore, it can be determined that Ocean Bio-Chem Inc (OBCI.O) is the worthiest of investment in the sample. In order to prove the article‘s conclusion is correct, the research checked the latest US stock market information. On July 20, 2022, it was $12.96, and a month later (which is now) it is $13.05. Although it rose less than the Nasdaq (up 5% in the past month), at least it didn't fall, which means that it has not lost money in the past month.

4. Limitations & Prospects

Nevertheless, this study has shortcomings and drawbacks. The first is the data problem. The data sources for this article come from multiple databases, including Compustat, Eastmoney and China Stock Market Accounting Research (CSMAR), which may lead to inaccuracies in the data. Then, there is the issue of timeliness. The financial reports of some companies in the third quarter of 2022 have been announced, while some companies only have 2021 financial reports. In addition, the time period of the study is from 2017 to late July 2022, with a one-month time difference from now on, which may lead to some information gaps. In addition, there are some problems with the method. As mentioned above, stock investment experts such as Buffett and Soros are masters of psychology and can well grasp the psychology of investors. However, because psychology is too difficult to quantify, this research deliberately avoided this problem during the research. Nevertheless in the real stock market, investors' psychological factors account for a large proportion of their behavior. There is another problem that cannot be ignored. On account of the randomness of the stock market, this research have not made predictions about the next movement of the stock. In other words, whether it will rise or fall next is an unknown question. The article only judge whether it is worth investing based on previous experience, without considering its future trend, which makes this research have certain limitations. Finally, this research does not involve multi-stock portfolios, which ensures the controllability of returns and risks in the view of modern investment theories.

Despite many limitations, the purpose of this study has been achieved in any case. The article define four basic principles for stock selection: valuation, growth, profitability and payout. According to these principles, a stock that meets the requirements has been selected. Instead of falling over the next month, it rose slightly, although not as fast as the broader market index. More importantly, perhaps a new method of stock picking has been proposed, although it may be a preliminary model. Although it has many defects, it can be regarded as a new way of researching stock investment methods. Meanwhile, if necessary, certain improvements to the method of this research will be given in the future. For example, some psychological factors can be added based on the stock's popularity (depending on volume and company value), recent trends, industry policies, etc. The investment object will also be a portfolio consisting of multiple stocks instead of a single stock, i.e., don’t put all your eggs in one basket.

5. Conclusion

In a nutshell, this analysis has supplied a method to select a good stock that meets the requirements, that is Ocean Bio-Chem Inc (OBCI). According to the analysis, comprehensively compare the four aspects of valuation, growth, profitability and payout, OBCI stands out from the sample and competitors of the same industry. In addition, OBCI's moves didn't disappoint over the next month, it didn't go up much, but at least it didn't damage investors’ wallet. As a matter of fact, all signs prove that the method of this research is correct and effective. Although this research has certain limitations, such as ignoring psychological factors and not using a multi-stock portfolio, this research is still very valuable. In the future, optimizing the method of stock selection ought to be improved based on the state-of-art approaches. Overall, these results offer a guideline for stock selection, reducing investment risks and improving the investment behavior of investors.

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