Graham Formula Stock Screener

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In *The Intelligent Investor*, Benjamin Graham provides a simple formula, that, in his own words, only "approximates the results of the more elaborate calculations in vogue" for the valuation of growth stocks. The formula was slightly revised in 1974 and is usually presented as follows:

\[ V^* = \text{EPS} \times (8.5 + 2g) \times \left(\frac{4.4}{Y}\right), \]

where \( V^* \) is intrinsic value of a stock, \( \text{EPS} \) is the company's last 12-month earnings per share, 8.5 is the constant representing the appropriate P/E ratio for a no-growth company as proposed by Graham, \( g \) is the company’s long-term (five years) earnings growth estimate, 4.4 is the average yield of high-grade corporate bonds in 1962, when this model was first introduced, and \( Y \) is the current yield on AAA corporate bonds.

Despite specific warnings from the author, the equation, known as the Benjamin Graham formula, is commonly used today for valuation of stocks. Graham followers even introduced the notion of relative Graham value (RGV), which is calculated as the ratio of stock's intrinsic value (\( V^* \)) to its current price (\( P \)):

\[ \text{RGV} = \frac{V^*}{P} \]

For overvalued stocks RGV is less than one, while for undervalued ones it is greater than one.