SAMPLE OF RISK REWARD (3 TO 1)
CALCULATION BEFORE INVESTING

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In the year 2000, General Electric ("GE") stock reached a high of @ $60.50. At those levels, the log chart clearly indicated the price risk beginning at $38 and extending down to the following levels: $24, $21, $18, $13, and $10.

Intelligent investing dictates that an investor should see the realistic possibility of making three times his risk in any investment within more or less the same time frame. Therefore, if he sees the possibility of losing all his money in an investment, he should, at a minimum, anticipate potentially making at least three times his money.

For purposes of illustration, if an investor bought GE @ $60.00 (as many did), he should have, at the very least, been able to justify a move to $126.00 ($60-$38=$22 x 3 = $66 + $60 = $126). Given the fact that GE was already trading at 44 times earnings, the assumption that GE could rally to $126 was ludicrous.

GE eventually broke to $36. At $36.00 the next risk level was ($36 - $24 = $12 x 3 = $36 + $36 = $72) still not a realistic objective.

Now GE is trading routinely at $23. If an investor can buy GE @ $18, with a possible risk to $13, the risk to reward math works in the following way ($18 - $13 = 5 x 3 =$15 + $18 = $33). This represents a very reasonable risk/reward ratio. This is especially true when one computes the difference between 60 and 18 as 42, then a rally objective of 33 is only a 38% retracement of the entire decline. It would still represent an 80% rally off the bottom, but it would be a very realistic expectation.