



## Morningstar Introduces Rating for Stocks

CHICAGO, Aug 08, 2001 – Morningstar, Inc., a leading provider of investment information and analytical tools, today introduced a Morningstar Rating™ for stocks. Morningstar is rating approximately 500 stocks from one to five stars, based on its analysts' estimates of a stock's fair value relative to its current market price. Morningstar is also introducing an associated risk measure, which will identify stocks as high-, medium-, or low-risk based on company and industry factors. The new ratings are available as a feature of Premium Membership on the company's investment Web site, [www.morningstar.com](http://www.morningstar.com).

"The new Morningstar Rating for stocks is based on business fundamentals and gives investors a simple tool for identifying undervalued stocks, which is at the heart of most successful investment strategies," said Morningstar Managing Director Don Phillips.

"What's more, Morningstar's stock analysis is completely independent. We aren't in the investment banking or security underwriting business, so investors can be assured that our analysts' opinions are free of conflicting interests."

The Morningstar Rating for stocks is based on the ratio between a stock's current price and its fair value, as determined by a discounted cash flow analysis using Morningstar stock analysts' estimates of growth rate, profitability, and asset efficiency. Morningstar's discounted cash flow model was developed by The Applied Finance Group, Ltd (AFG), based in Chicago. For more about the philosophy behind the Morningstar Rating for stocks, [click here](#).

The Morningstar Rating for stocks assigns one to five stars using the following scale:

- 5 stars = Fair value is 30% or more above the current market price
- 4 stars = Fair value is 10% to 30% above the current market price
- 3 stars = Fair value is 10% above or below the current market price
- 2 stars = Fair value is 10% to 30% below the current market price
- 1 star = Fair value is 30% or more below the current market price

The Morningstar Rating for stocks helps steer investors away from overvalued securities and toward undervalued ones. Morningstar's analyst-driven ratings are based on company fundamentals, not technical analysis or momentum factors.

The new rating was developed by Morningstar's stock team, led by Pat Dorsey, director of stock analysis, and Morningstar's research department, led by Paul Kaplan, Ph.D., CFA, director of research, and Vahid Fathi, D.Sc., director of stock research.

This methodology differs from the popular Morningstar Rating™ for mutual funds, which is a quantitative measure of how well a fund has balanced risk and return in the past. Phillips explained, "Although we use different methodologies, both result in a meaningful, independent rating that is easily understood by investors. The Morningstar Rating for stocks is another powerful tool that will help investors assemble better portfolios."

The Morningstar Rating for mutual funds debuted in 1986. It introduced the concept of risk-adjusted return to the general investing public and quickly became a popular tool for mutual fund investors.

For more on the Morningstar Rating for stocks, [click here](#).

### About Morningstar, Inc.

Chicago-based Morningstar, Inc. is a leading provider of independent investment information. Morningstar offers an extensive line of print, software, and Internet-based products and services for individuals, financial advisors, institutions, and the media.

The company is the trusted source for investment information, data, and analysis of stocks, mutual funds, exchange-traded funds, closed-end funds, and variable annuity/life subaccounts.