CRAMER'S TWENTY-FIVE RULES FOR INVESTING

The Street

Bulls, Bears Make Money, Pigs Get Slaughtered
Rule 1

What would you do if I told you the Nasdaq were to go up 1,000 points between now and November? What would you do if I told you the Nasdaq was going to double by December? How about if I told you that after it doubled, you would then catch another 1,000 points up by March?

First, I think you would tell me that I was nuts, and not worth listening to. But what if I were so persuasive that you believed me. Wouldn't you want every penny you had in the Nasdaq right now?

Or would you say, "Nope, not for me, this one's not worth catching. I don't want the 1,000 points, I don't want the double and I certainly don't want that last 1,000 points. Way too dangerous for me."

From the way people talk these days, with sober intonations about the market, total sobriety, you would believe the latter. You would think that people would avoid that 3,000-point move like the plague. Because we know how that 3,000-point up move turned out, we know that we simply climbed the stairs to jump off the tower.

Yet, that's what happened six years ago, that exact same sequence. Knowing what we know now about how hard it is to make money in the market, I think we would regard ourselves as utter fools if we avoided that incredible move simply because we didn't have to jump off the tower of Nasdaq 5000. It wasn't inevitable.

It wasn't inevitable unless we are pigs.

Which leads to one of my absolute favorite adages:

Bulls make money, bears make money, pigs get slaughtered.

Rules like that one — simple, nonquant and yes, nonfinancial rules — saved me in 2000.

These days there's plenty of revisionist history on the part of financial commentators, editors and occasionally even brokerage house personnel — if they let themselves wax philosophical — about what happened when the Nasdaq bubble burst. Those who tried to capitalize on it are now ridiculed. Those who avoided it are now held up as some sort of paragon worthy of Diogenes.

Hardly.

The truth is that for one year of our lives, the Nasdaq gave away money to those who were bulls, but after 3,000 points, the bulls morphed into pigs and everyone who was piggish got annihilated.

So often, when I bring this adage up, people ask me "How do you know when you are being a pig?" I know there's not supposed to be any stupid questions out there, but the answer is, frankly, you don't need me to tell you. If you weren't feeling piggish after we hit an all-time high on the Nasdaq in 2000, you needed a shrink, pronto.

Remember, my goal is to stay in the game. The people who got wiped out by the Nasdaq crash tended to be people who never took anything off the table, who never felt greedy, who got slaughtered by their own piggishness.

Unlike so many others I see and hear on television or read in articles, I have no regrets about liking the market during that period. To have avoided those 3,000 points would have been sinful. It would have been suicidal for a professional manager.

But it was my desire not to be a pig that kept me in the game in March and April of that year. That's why I remind people every day: Have you taken your profit? Have you booked anything? Or are you being a pig? Because you never know when things you own are going to crash. You never know when the market could be wiped out. You can't have certainty. At those times, you have only human nature to guide you.

Whenever I struggle with a stock in my Action Alerts PLUS portfolio because I have booked so many profits that I feel I don't have enough on my sheets, I console myself with the simple lesson of Nasdaq 5000. For example, I caught the oil move in a prudent way that made me a lot when it first started but couldn't make me as much later, simply because I had taken stock off because I didn't want to be a pig. That meant I would make less money than others who were in the patch. I accepted that, as I do every time I make the decision not to be a pig.

It's the price I have to pay for following my adage. It always seems a high price when things are going well, as it did in March 2000 when I sold so much stock.

Until I look back and realize that my desire not to be too greedy saved me so I could live to play again.

It's OK to Pay the Taxes
Rule 2

No one has ever liked to pay taxes. As long as there have been taxes, people have hated paying them. But the aversion to paying taxes on stock gains borders on the pathological. That's why my second bedrock tenet for my 25 rules of investing is:

It's OK to pay the taxes.

When I went bearish in March 2000, I received a huge amount of angry email from people who felt aggrieved. They had bought, I don't know, Redback Networks or InfoSpace because of me, because of something I wrote, and now they were being told to sell it.

Had I no regard for them? Had I no regard for how much in taxes they would have to pay because the gains were short-term? What was the point of making money in a compressed period of time when it meant you would have much less to show for it than if the stock were held long-term?

I had zero sympathy for these people. I had long ago made my peace with the tax man. I knew that some gains were and are simply unsustainable. Given, though, that so many people thought that if you bought and held, you always ended up with more than if you bought and sold, my discussion fell on deaf ears, an audience like the character in The Lord of the Rings, Gollum, who says, "I'm not listening, I'm not listening."

Anyone who held on to get the long-term gain then ended up with no gain at all. You obviated the need to pay taxes the hard way; no taxes are due when you sell at a loss.

It's important to remember that gains, any gains, can be ephemeral. It is better to stop worrying about the tax man and take the gains when those gains appear unsustainable than to ride things back to a loss. Stop fearing the tax man; start fearing the loss man. You won't regret it.

At the time of publication, Cramer had no positions in stocks mentioned.

Don't Buy All at Once
Rule 3

No broker likes to fool around with partial orders. No financial adviser has the time to buy stocks methodically over time. The game is to get the trade on, at one level, in a big way. Make the statement buy. Get the position on the sheets or in the portfolio.

And from where I sit, that's all wrong. 100% wrong. Never buy all at once. Never sell all at once. Stage your buys. Work your orders. Try to get the best price over time.

When I first started out as a professional trader, I wanted to prove to everyone how big I was and how right I would be. If I wanted to buy Caterpillar, by golly, I wanted to buy it now, big, at one price, because I was so sure of how right I was. "Put me up on 50,000 CAT!" I would scream, as if I were the smartest guy in the universe.

What an arrogant son of a gun I was. Arrogant and wrong.

What should I have been doing? Following my rule that you don't buy all at once. If I wanted to get 50,000 CAT in, I would buy it in units of 5,000 over time, trying to get the best price. I would put some on to start and then hope to work my way down to get a better basis.

I no longer trade institutionally. I no longer trade "in size." But I still invest for my Action Alerts PLUS portfolio, and when I have a new name, I buy in 500-share increments over a day to get my several thousand share position on. I did it in a way that gave me a terrific price.

Why don't more people do it my way? Why don't people, if they want 500 shares of ExxonMobil, buy it in 100-share increments? I think it is because they want to be big, too. They don't want to waste their broker's time. The broker wants to get the trade done. I know my brokers hated it when my wife, who came in to run my trading desk, took orders like mine for CAT and then broke it into small increments and worked in over a day's time.

You must resist feeling like you are making a statement. I have bought and sold billions of shares of stock. Do you know how often I got it in at the right price? Do you know how often the last price I paid was the lowest and it was off to the races? Probably one in one hundred. And I'm pretty good at this game.

Resist the arrogance, buy slowly, even buy over a couple of days as I do for my Action Alerts PLUS portfolio. It's humbling and it's right.

At the time of publication, Cramer had no positions in stocks mentioned.

Buy Damaged Stocks, Not Damaged Companies
Rule 4

Let's say Wall Street is holding a sale of solid merchandise that it has to move. And let's say you take that merchandise home only to find it doesn't work, has a hole in it or is missing a key part. If we were on Main Street, of course, it wouldn't matter. There are guarantees and warranties galore on Main Street. You can take anything back.

You can't return merchandise on Wall Street and get your money back. Nope, no way.

Which is why I always say:

You have to buy damaged stocks, not damaged companies.

Sometimes these buys are easy to discern. In 1998, when Cendant was defrauded by the management of CUC International through a series of bogus financials, the stock went from $36 to $12 in pretty much a straight line. Was that a one-day sale that should be bought? No, that was a damaged company. It took years for Cendant to work its way back into the hearts of investors. Some say it has never recovered.

But when Eastman Chemical announced a shortfall in early 2005 because of a problem — a fixable problem — at one of its facilities, that 4-point dip was a classic panic sale, one that you had to buy. The stock subsequently moved up a quick 8 points when the division recovered in the next quarter.

Sometimes, the sales on Wall Street aren't as obvious. I got snookered in 2004 thinking that Nortel's accounting problems were a simple sale of a damaged stock, with the company quite whole. In fact, the company was gravely damaged by an accounting fraud, and it has looked doubtful the company would ever recover.

And sometimes the sale is so steep that it looks as if something's dreadfully wrong, when really the problem is something that over the longer term will go away.

How do we know if there is something wrong with the company instead of just the stock? I think that's too complicated a question. What I like to do is develop a list of stocks I like very much, and when Wall Street holds an en masse sale, I like to step up to the plate. I particularly like to be ready when we have multiple selloffs in the stock market because of events unrelated to the stocks I want to buy, a major shortfall of an important bellwether stock, or perhaps some macro event that doesn't affect my micro-driven story.

Of course, sometimes you just have to deduce that the company's fortunes haven't really changed, and the fundamentals that triggered the selloff (either in the market or in the company) will be something that will reverse themselves shortly. But you never know. Which is, again, why I think that rule no. 3 must be obeyed. If you don't buy all the stock at once, and if you take your time, it is more likely that you won't be left holding a huge chunk of merchandise when more bad news comes around the corner.

At the time of publication, Cramer had no positions in stocks mentioned.

Diversify to Control Risk
Rule 5

If you control the downside, the upside will take care of itself. I have always believed that to be the case. But controlling the downside means managing the risk.

The biggest risk out there is sector risk. I don't care how great a tech stock was in 2000 — even eBay and Yahoo! — if you had all your eggs in that sector, you got scrambled. Same with pharma in the last several years. Or oil in 1982, when I broke into the business.

What can keep you from getting nailed by sector risk, which is about 50% of the entire risk of owning a stock?

Diversification.

It's the only investment concept that truly works for everyone. If you can mix up enough different sectors in your portfolio, you can't be hit by one of the myriad perfect storms that come our way far more often than you would think.

Why aren't more people diversified? Many amateurs don't know the stocks they buy. They end up with stocks that are frighteningly similar. When I started playing "Am I Diversified" on my radio show in 2001, I was blown away by how few people knew just how undiversified they really were.

I still field quite a few calls from people who genuinely think that owning Sun Microsystems, EMC and Microsoft is a form of diversification because they own servers and software!

They think that having Pfizer, Bristol-Myers Squibb and Procter & Gamble makes them safe!

And no matter how much I may like oil stocks at any given moment, I can't countenance a portfolio made up of ExxonMobil, Chesapeake Energy and Halliburton.

An undiversified portfolio is not just an amateur mistake, though. Many professionals don't like to be diversified because of the bizarre way money is run in this country. If you concentrate all your bets in one sector and the sector takes off, you will beat pretty much every diversified fund out there. That's the nature of the beast. You then can market yourself as a huge success and get profiled by every magazine and take in capital from unsuspecting folk who don't know how much risk you truly are taking on.

Both amateur and professional are wrong; controlling risk is the key to long-term rewards and controlling risk means being diversified at all times.

At the time of publication, Cramer was long Halliburton and Microsoft.

Do Your Stock Homework
Rule 6

My kids hate homework. They think it is punishment. Sometimes when I look at what they are studying, I have to admit that I find it easy to sympathize with them. What's the relevance of most of the things they study? How will it help them in later life? Why bother?

Of course, that's a terrible attitude, and, as a parent, I encourage them to study because I want them to do well, and because you never know what they eventually will be interested in.

I think many of you believe that the homework you do on stocks might be just as irrelevant to your own portfolios as schoolwork seems to my kids.

When I tell people that they have to listen to the Starbucks conference call or know what the analysts are looking for from Urban Outfitters if they are going to own those high-multiple stocks, they don't want to hear it. They can't understand what a scold I am.

When I remind people that doing the homework could take as much as an hour per week per position, they look at me as if I am some sort of old-fashioned teacher who is asking for way too much in this busy world in which we live.

That's just plain wrong.

Where does the desire to own stocks with no research into the companies come from? It comes from two different views:

- If I buy it and hold it long enough, it will come back.

- I don't have the time — no one has the time — to be that diligent.

The latter point's easy to counter: You don't have the time? Give it to someone else. You don't understand how to read a balance sheet? Give it to someone else. There are lots of good managers out there who will beat you simply because they are at it every day and you can't be.

It's the first concept, though, that I find really needs debunking. Buying and holding became the be-all and end-all for many people in the 1990s. "You know what? I am just going to hold on to that CMGI because it has to go back to $100, where I bought it." Or, "Why sell Sun Micro now? When it gets back to $70, I am going to sell it because all of the texts say that if you hold things for the long term, everything works out."

Huh? What text says that? I don't know of it. That's just a fictional contortion of what the texts say.

That's why I say: Before you buy any stock — before you purchase Caterpillar, before you buy Lucent — please, please, do your homework.

Listen to the conference calls. Go to the company's Web site. Read the research. Read the news stories. Everything's available on the Web. Everything.

But if you fall back on a buy-and-hold strategy for an EMC or a Microsoft, I can assure you that you will be soundly beaten by professional managers with good track records who are actively searching for good stocks all of the time.

Remember:

Buy and homework, not buy and hold.

At the time of publication, Cramer had no positions in stocks mentioned.

No One Made a Dime by Panicking
Rule 7

You see it over and over again. A stock gets hammered. People flee after the hammering. The market gets crushed on a huge down day. People leave at the end of the day. A sector gets annihilated. Quickly. People can't take the pain; they bolt after the annihilation.

Panic is the operating instinct in all of these cases. There's something basic and instinctive about panic, about the desire to flee. It might work when it comes to individuals and things that might threaten us physically. But it can't make you a dime. That's why I say:
No one ever made a dime panicking.

There will always be a better time to go, a better time to leave the table than the one brought on by panic.

Let's take a classic panic, a run out of Biogen Idec from March 2005. As soon as I saw the panic in that stock, I wanted to run the other direction; I wanted to buy. If you bought the heart of that panic, the $36 price, you could have made a quick 5 points. If you flipped it then, you could have gotten back in and already would have been up a couple for the investible side of the ledger. But by going up again, that stock made a mockery of those who fled.

We get mini-panics all the time in the market. We might have a mini-panic in Starbucks off a weak monthly comp number, or in Panera and Whole Foods off a couple of not-so-great months. Those down-5 and down-10 situations don't need to be chased or participated in. A better time to sell will come.

I want you to do something for me next time there is a panic. I want you to take the opposite side of the trade. When you see one of those high-speed routs of a sector or a stock, buy a little. Get a feel for it. See what I mean. The most rewarding trades you can make are those where the decks have been cleared out by panicky folks using market orders who just don't get that the exit doors aren't as big as they think they are.

Mind you, I am not saying that all merchandise that gets panicked out of is worth buying for the long term. I am saying that it's a rare day when a stock or market that is socked that there won't be some sort of bounce that allows you to get out at a better price than you would have if you just joined the fleeing masses.

Buy Best-of-Breed Companies
Rule 8

In cars, we buy best of breed. Not even an issue. We pay up for the brand because we know that a brand, a good brand, signifies reliability. It signifies a higher level of service, a quality of ownership that can pay dividends for years.

Why don't so many of us feel that way in the stock market? Why are so many drawn to a Safeway or a Kroger, inferior supermarket chains, when Whole Foods Market is clearly the best of breed?

Why did so many people lose money in so many different audio component stores, when Best Buy is the only company that delivers sustainable profits in that retail sector?

Why would people want to own General Motors or Ford, just because those stocks are down a lot, when they could own best-of-breed Toyota, which is taking share and making big profits? I know they are drawn by the low dollar amount of the American carmakers, but Toyota is the cheapest and the best, a rare find.

The list goes on and on. Way too many of you are unwilling to pay up for best of breed because you think that you are getting short-changed. There are very few bargains out there in the world of secondary and tertiary players. I believe that when it comes to price-to-earnings multiple, investing in the more expensive stock is invariably worth it because you get piece of mind. That's why I say:

Own the best of breed; it's worth it.

Take Walgreen and Rite Aid. Sure, Rite Aid seems perpetually in turnaround mode and you have to love the cheaper stock. Don't you? Not me; I have to tell you that I think Walgreen is the bargain of those two, because I never mind paying a higher price for the better company.

Forget about it. Buy best of breed. Pay up. You almost never will find yourself regretting it.

Defend Some Stocks, Not All
Rule 9

When the markets are hard and unrelenting, as this one has become this year, it's important to remember an adage that's well-suited for a battlefield plan but is just as valuable for a portfolio plan:

He who defends everything defends nothing.

When the market's flying and many stocks are in a bullish mode, it really doesn't matter how much you have on, or how many positions you have. The more exposure the better.

But when things get tougher, you have to recognize that many stocks that you bought for better times may not be in good enough shape to rally. You can't own everything you would like to own.

For example, last March you may have been playing the chemical sector with Eastman Chemical, Dow Chemical and DuPont because you saw the demand from China. But when General Motors suddenly "blew up," you had way too many chemical companies.

I like to say, don't defend them all, just defend some. Pick your favorite and defend that. If you try to defend them all, you simply will run out of capital or go on margin before the bottom. You will lose your reserve and not be ready if the market doesn't turn in your direction.

That's why I rank all my stocks at all times for my Action Alerts PLUS portfolio. I need to know which stocks I will defend when things get tough and which I will cut and use as sources of capital.

It's extremely important, say, if you think that the techs are going to start rallying here, that you don't just keep the whole complex. Pick the best stocks, the ones you know you will want to buy if they go lower and toss out the rest.

Let me give you an example. Say storage stocks seemed to be holding up rather well under tough market conditions and that sector struck me as worth defending. But that might mean I'd toss out a software stock that I was more worried about or eliminate an Internet stock because I couldn't know when it would reverse. I would defend, only, say, QLogic or Brocade, but not both.

If you rank stocks on a scale of one (buy) to four (sell), as I do at the end of every week for Action Alerts PLUS, you know that when you come face-to-face with the enemy — an onslaught of selling — you are ready to buy on the way down the ones you can truly defend — the No. 1 stocks — and you will wait on the twos until they are lower.

The nonessentials — the ones that have no catalysts and that you are using just for exposure because you thought you liked the market — they get the heave-ho immediately.

My wife, the former Trading Goddess, used to call this "circling the wagons" around your best names. The few first times you do it, you will curse yourself because you will be slaughtering stocks you might have had on for some time.

But you must go through this process a multitude of times before you realize how right it is and before it can become second nature.

You will end up with great costs bases on the stocks you really like, and you will have enough capital left to make a difference.

At the time of publication, Cramer had no positions in the stocks mentioned.

Bad Buys Won't Become Takeovers
Rule 10

Nothing's more exciting than a takeover. Nothing's as lucrative. You can put on a lifetime's worth of moves in a day from a takeover. So people go to great extents to try to get them, including buying a lot of bad companies in the hope of catching one takeover.

Funny thing about bad companies: They rarely get bids. In fact, the companies that get bids are great companies with cheap stocks, not crummy companies with expensive stocks. Yet that's what people buy, all the time. Here's my rule: Never speculate on companies with bad fundamentals.

The odds are that you will end up owning something that could go down much more than you thought, but that has very limited upside. You can make much more money buying a company that is doing well and can still get a bid, than you can buying a company that is doing poorly and is unlikely to get a bid.

Any time I deviate from this rule I get burned, particularly when I approach a stock as a nontakeover story and then the fundamentals go awry and I try to shoehorn it into a takeover story. Take Nortel. After the accounting fiasco, I consoled myself that perhaps the company would be acquired because it was so cheap. That proved to be a sucker's game, because the company simply couldn't put out financials. Maybe one day Nortel will get a bid, like Lucent, but I have a feeling that it won't happen soon enough to make up for the time value of money.

Some people have stayed in painful stocks believing that lightning could strike. Meanwhile, if they had moved on, they could have bought high-quality companies that moved up over time and could have done much better.

When you're scouting for companies where the fundamentals are cheap and the takeovers are likely, remember that, unlike companies with bad fundamentals that you speculate on, if these go down you don't need to cut and run. If they don't get a bid, you still can win.

And you need multiple ways to win, at all times.

At the time of publication, Cramer had no positions in the stocks mentioned.

Don't Own Too Many Names
Rule 11

In my years as a hedge fund manager, I spent three hours every day analyzing the mistakes of the day before.

That was my major task, one that I completed before anyone else came into the office, generally between 4 a.m. and 7 a.m. I would analyze every losing trade — you don't need to analyze the winners, they take care of themselves — and try to figure out how I could have made more money or lost less money.

I was maniacal about it.

And after a couple of years of this, I realized that good performance could be directly linked to having fewer positions.

I never will buy a stock without first taking one off. That's a great discipline and one you should adopt, pronto. All the bad money managers I know have hundreds of positions. All the good ones have a few that they know inside out and like on the way down. That's why I say:

Don't own too many stocks.

I know it can be constraining. For instance, I might like several stocks in the chemicals group, say, DuPont, Dow Chemical and Eastman Chemical. But my discipline leaves room for only one, so I would own the one that I thought was the cheapest and the best.

When I lost the most money as a hedge fund manager, by the way, my "sheets," my position sheets, were as thick as a brick. When I made the most money, my sheets were, well, one sheet of paper, double-spaced. And I ran hundreds of millions of dollars.

Please remember that whether you are a pro or an amateur, you can always have too many positions.

At the time of publication, Cramer had no positions in the stocks mentioned.

Cash Is for Winners
Rule 12

The aversion to cash in this business breaks my heart. Sometimes cash is such a perfect investment that it drives me crazy how few people ever recommend it. Nah, they hate the market so they are only 95% long instead of 100%. Or, they think the market stinks, so they decide to short a few highfliers against their longs.

No, No, No!

You don't like any sectors? Sell everything and go into cash, don't short Advanced Micro Devices vs. Intel or Nortel vs. Lucent.

You don't think the market's going to do anything? Don't try paired trades, like General Motors vs. Ford, and don't buy defensive stocks like Anheuser-Busch or General Mills. Just get out.

So many people never want to get out and go to cash, which is literally short-term Treasuries of the less-than-a-year variety. People start talking about how little cash earns — although it sure earned more than a year ago. Or they say, "Can't be in cash, that's for losers." But I say:

Cash is for winners.

A lot of this cash aversion stems from something that occurred a decade ago, when Fidelity Magellan underperformed because it had too much cash. As a result of the weak performance, the manager was fired! But no one ever seems to get fired for bad stock-picking. The takeaway in this game ever since that high-profile firing was: Don't dare get caught with too much cash. That's why you see and hear all of these fund managers who have lukewarm views walking around with massively long-biased portfolios.

I grew up in a different time. I only shorted when I had an edge — I can't short at all right now by contract, but back when I could, I didn't short just for the sake of having some shorts on against longs. I don't care about not having enough exposure; I care about losing money!

If I were you and I didn't like the market or didn't have anything that compelling to buy — as defined by a willingness to buy it down if the stock keeps going lower — I would go with cash. It's never wrong when you don't like the tape or when you can't find anything that truly makes sense for you.

At the time of publication, Cramer was long Anheuser-Busch.

No Woulda, Shoulda, Couldas

Rule 13

Your head matters in this game. You need to have it on right every day if you are going to see opportunities and act on them. Yet so many of us have heads clouded with thoughts that genuinely throw us off target and make us do the wrong thing.

The most damaging recurring thought you can have is this: "If only I ..." — you can fill in the rest. As in, "If only I had acted sooner on Electronic Arts." Or, "I should have pulled the trigger on Nvidia ahead of that quarter." Or, "I could have made a fortune if I had stayed short that Sun Microsystems."

Don't get hung up on the woulda, shoulda, couldas.

This is wasted, damaging emotion. It is destructive to the positive psychology you need when you are making investment decisions. For a long time, I took it to an extreme. I would sit and be mesmerized by a couple of big misses, by things that I got wrong. I would be obsessed, hitting up the big miss over and over again.

Not anymore. With the help of my wife, the Trading Goddess, I was able to see just how destructive such a pattern of thinking is. In fact, I have had to build in methods of tricking my mind into not playing this game.

A while ago, I absorbed a terrible loss in Charter at the $2 level. I knew that to keep myself from thinking "I could have sold the stock at $4 and change for a nice gain," I had to take Charter off my screen. I do that with all stocks that go up huge after I leave them or that have gone down huge and I had to take the loss for fear that they then will rally and further shatter my confidence.

If you are like me, and you need help curbing this kind of destructive thinking, go to that extreme; take the stocks off your monitor or your portfolio watch. You will be surprised how much better you perform when you stop the woulda, shoulda, couldas.

At the time of publication, Cramer had no positions in the stocks mentioned.

Expect, Don't Fear Corrections
Rule 14

You'd think that after the dozens of corrections we've had in the last 20 years, we would get used to the process. You would think that we would say, "Let's prepare for the correction because it has to be right around the corner." Yet most people I know act as if corrections are total shockers, the type of thing that never happens.

To me, they are like the rain. I expect it has to rain. I prepare for it. When it comes, I am ready. I have an umbrella and a coat or I stay indoors.

Expect corrections; don't be afraid of them.

Of course, corrections happen at allegedly unexpected times. The last few we had were preceded by terrific days during which we made lots of money and all systems seemed go.

That's when I worry most. I used to have a rule at my hedge fund: When I made 2% in a day on the upside, I knew I was too exposed, I knew I was too long. I knew that my portfolio would kill me if we caught a storm. So as the market lifted, or if my performance was swinging too much to the upside, I would pull back, sometimes furiously, into strength, so I would be ready for that big down day.

Sometimes it never occurred, and I had to swallow my pride days later and come back in. But when it did occur, I outperformed by so much that my partners thought I was a genius. Plus, I was ready to buy things with the cash I had taken off the table.

For example, let's take the oils and the oil drillers, companies like ChevronTexaco, ExxonMobil, Halliburton and Schlumberger. I like to pick on them because they are classic rally/correction stocks. When these stocks were ramping every single day in early 2005, I knew we were setting ourselves up for a fall. So I did my best to scale out into strength.

I felt terribly naked when, for example, Kerr-McGee spiked to $81-plus and I had none left because I had been selling into strength. Sure enough, though, a week later, and it was already below where I had sold it. If I liked it so much, I could have bought it back.

You may not know when a storm might strike. But we do have barometric readings that help immensely. When the S&P's proprietary oscillator registers plus 5, that signals to me a level of overbought that I regard as dangerous and I pull back aggressively and wait for a correction. That might mean that if I owned a portfolio of Intel, PNC Financial, Electronic Arts and Procter & Gamble, I might be selling up to half of those positions, no matter what, in order to be ready for the storm.

If the rough weather doesn't come, I underperform on the upside. But think of this: I compounded at 24% after all fees for my hedge fund career, about twice what the market did during a long stretch in which it was pretty darned good. The only empirical conclusion: My method of avoiding the big down days more than made up for having less exposure on the big ramps up.

Don't Forget About Bonds
Rule 15

"Where are the bonds?" That's how I used to begin every phone conversation when I was on the road, away from my desk, back when I ran my hedge fund.

Yet people forget the bond market all the time. They forgot it in 2000, even though it told them the economy was softening. They forgot it in 2001, when it was clear that the cash rates were too competitive to stocks and would cause a massive selloff. That's why I say:

Don't forget bonds.

I was trained to focus on bonds because bonds are the competition to stocks, the competition I most fear. When short-term rates go sky-high, you have to expect companies that had been bought for good yields, stocks like Bank of America or BP, will sell off.

When long-term rates fall to 4%, you have to believe that the economy may be too soft to own deep cyclicals or that stocks that have high yields, like utilities — I like to watch Duke Energy — will be on the move.

You need to watch more than the stocks. If this were basketball, I would be saying that if you just watch the man with the ball, let's call him Citigroup, and you don't watch what the others are doing on defense — the bonds — there's no way you are getting to the basket. The men without the ball — the bond market — can determine the action.

Many people who got in this game in the last decade still don't even know what bonds are. They are troubled when you say bonds went up today. They think that means interest rates are going up rather than what it really means, which is that interest rates are going down. If you don't understand how bonds work, I think you will not be able to make nearly as much money as if you do.

By the way, a lot of younger managers think they only need to think about bonds if they own Washington Mutual, American International Group or Fannie Mae.

They don't think bonds matter with a portfolio of Research In Motion, eBay or Qualcomm.

Wrong! When interest rates move significantly higher, no one's going to pay a lot for the future earnings growth stocks provide.

So keep your eye on the ball, and on the men without it.

Never Subsidize Losers With Winners
Rule 16

Professionals and amateurs alike hate selling their dogs. They keep hoping, keep assuming, that a sinking stock is wrong in its direction. They rationalize that the weakness or lack of interest they see is and will be fleeting, and that people soon will recognize the value that the holder sees in the stock.

That's all well and good, until you need money.

Most fund managers have fabulous marketing teams that are able to hype their funds regardless of performance. Despite that and despite the shameless way this industry supports just about anyone who runs money if the money-runner is willing to kick back to the sources of funds, managers do get cash calls. They periodically have to redeem shares they own for cash to send back to unlucky investors.

When they do, that tendency to keep the dogs develops a sinister side: Good stocks get sold to subsidize the losers. You then get a self-fulfilling spiral as the bad stocks stay bad. They usually keep going down. And the fund, without the good stocks, keeps sinking. They never learn my rule:

Never subsidize losers with winners.

Individuals do the same thing. They have only a finite amount of capital to invest. Rather than take the medicine — the loss — they hold on to the losers and sell their winners.

My advice to anyone who is stuck in this position is quite simple: Sell the losers and wait a day. If you really want them, go buy them back the next day. I also am certain that you never will.

At the time of publication, Cramer held no positions in stocks mentioned.

Check Hope at the Door
Rule 17

When I hear the word "hope," as in, "I hope that doomed stock du jour will come back to where I bought it so I can sell it," I get furious. Always remember:

Hope is not part of the equation.

Don't "hope" for anything. Hope is emotion, pure and simple. And this is not a game of emotion, other than to take the other side of the desperate. Yet, I hear "hope" more than any other word, particularly with troubled tech stocks. Those stocks are filled with hopeful people betting that something good eventually will happen that will drive the stocks higher.

Hoping and praying are excellent things in religion. They are integral to sports. You know that the coaches of some of these come-from-behind NCAA men's basketball teams keep players motivated through hope.

But hope is a mistaken emotion in our business. It supplants reason, it supplants rigor — especially when it comes to low-dollar-amount stocks.

No company ever set out to have a low-dollar-amount stock. The companies fight like heck not to have them. When they have them, it is a judgment rendered by the market that is harsh, difficult to accept and ultimately, far more right than wrong. When you suffuse your thinking with hope, you end up holding on for something that most likely will never occur. Cut your losses and move on.

Remember, we don't care where a stock has been, we care where it is going, and it is most likely headed down if you are hoping.

At the time of publication, Cramer held no positions in stocks mentioned.

Be Flexible
Rule 18

The most important rule of all is:

Be flexible.

You have to be flexible because business, by nature, is dynamic, not static. Things change. Markets change. Competitors start new price wars to win share. Companies execute poorly. Customers cancel orders. Events happen that make buying decisions more difficult or postpone them.

Of course, our buy-and-hold brainwashing totally precludes many of us from ever thinking like this. We have made up our minds that things are great for Coca-Cola, say, and we don't want the facts to get in the way of the story. Or we decided in 2000 that Cisco was a winning stock and we are not going to be dissuaded by the change in the fundamentals to sell it. Our "love" for stocks is so misplaced in this rough-and-tumble world of business.

Let me tell you a story of what happened to me a couple of years ago by way of illustration. I thought that Charter Communications would be a terrific stock if the largest shareholder would simply pony up more money with the rest of us to improve the balance sheet.

Instead, the largest shareholder took a powder and the company went to hedge funds and offered them the right to short as much common as they wanted to in return for lending them money. The hedge funds obliged. If the company had adopted my funding method, or if the company simply had done a huge equity offering, we would be looking at a win, not a loss. But the company made the wrong move and the stock went from being a good stock to a bad one.

Many people thought that I had gone from being a good stock picker to a bad stock picker because of Charter. Frankly, I think that management and the largest shareholder made moves that weren't rational. It's hard to invest with someone who exhibits irrational behavior after that person had not exhibited such behavior before. So I had to cut my losses and run. I mention all of this because the unwillingness to recognize this turn for the worse, as bad as it was, would have led to much larger losses than I already had accrued in the stock. This is what happens if you are inflexible (see Rule No. 18), too, if you believe too much and don't shift when it's clear that management doesn't care.

Stay flexible and recognize the vicissitudes of the market and of individual businesses. Or, own bonds.

Your call, as always.

At the time of publication, Cramer held no positions in stocks mentioned.

When the Chiefs Retreat, So Should You
Rule 19

Lots of guys had lots of reasons to sell Enron. I only needed one of them: The CEO quit for personal reasons.

CEOs don't quit for personal reasons. CFOs don't quit for personal reasons. These are fabulous jobs. You get them after giving up much of what people enjoy about life, such as family, friends and nights out. Competition is so fierce for these positions that when you finally land one, you don't up and leave. You leave because something's wrong at the company. Hence, my rule:

When high-level people quit a company, something is wrong.

"Aha!" you say, "I know a CEO who quit because he had an epiphany about climbing K2." Or, "I know a CFO who left because she wanted to spend more time with her family."

Fine. There are exceptions.

This is a game about the rule, not the exception. There will always be some situation in which it is a mistake to sell when a high-level person leaves. I don't care.

As you can tell, if you have read the rules to date, I am giving you the stuff that has kept me in the game all these years, that literally has kept me from losing more money than I have made.

In the midst of its scandal, AIG felt like Enron to me. We have no idea what kind of reserves AIG really has at all, and the high-level departures are unnerving. This one seems like Fannie Mae at best, Enron at worst.

This is why on some sleepy August night with Enron at $47 a share, I told everyone and anyone that I would sell it nine ways to Sunday because Jeffrey Skilling, the man who would have given his eye teeth to get his CEO job, suddenly quit. Of course, there were those who said, "Cramer, if you had done more homework, you could have gotten out at $90." Yeah, maybe. I didn't.

I didn't keep you in till zero, though, either.

At the time of publication, Cramer held no positions in stocks mentioned.

Giving Up on Value Is a Sin
Rule 20

Patience is a virtue — giving up on value is a sin.
I see so many people throwing in the towel on companies that have real assets and real worth just because they aren't working now, and it angers me. I recall an interview I did a year or so ago with the CEO of Superior Industries, a wheelmaker for auto companies. At the time, its stock was at a 52-week low. It had a big short position. It was getting lumped in with ne'er-

do-well companies.

And I asked myself, "Why sell that one? It's already down so much, it has a clean balance sheet, it can make acquisitions, buy back shares, do so many things." But people didn't want to wait until the cycle turned to get the profit that most certainly would come to those who waited for Superior. That's because it was cheap and good. It was cheap because it sold at book value; it was good because it had plenty of business.

Or take the situation I see developing in banks like J.P. Morgan and PNC. If the Fed doesn't tighten forever — which it won't — at a certain point, the value in these banks will be realized. Great brands, great branches.

But no one cares.

At any given moment, I like to have a portfolio of what's working now and what will work in the future. I think that after 16 tightenings, you have to start thinking that the Fed will have an impact and when it does, the Fed will be through. When the Fed is through, you are going to want to own the financials. I think they are a lot easier to own now than Phelps Dodge or U.S. Steel are.

It takes patience. Most don't have it. If you don't, frankly, I think you should let someone who has patience run your money. You don't deserve to.

And by the way, stocks like EMC and Cisco and Sun Micro don't qualify. They are expensive, not cheap. They don't represent value ... at these prices.

Be a TV Critic
Rule 21

Do you know how financial television really works?

I'll tell you. At times, it can just be a gigantic booking machine. That's right, people are scrambling to get money managers on who can talk, almost regardless of how good they are. And lots of times, executives say whatever they want on air, knowing that they can get away with it.

I accept this as a given. I accept that what I hear on television is probably right, but no more than that. That's the world in which we live. That's the reason I follow this tenet:

Just because someone says it on TV doesn't make it so.

Back in early 2005, a money manager came on television and knocked down Sirius by saying some negative things about it, some of which were true. I accepted the fact that he was short it and that he probably shorted the stock right before he went on and that probably what he said wasn't right. Did you think he was right?

I think you are naive if you simply believe what you hear. The vetting process to get on television simply isn't all that rigorous. When a manager says he likes EMC or Sun Microsystems, do you ask yourself where he bought it? Do you think he might be selling it?

When someone comes on and says that Elan is a buy, do you think, "He's really stuck in that pig"?

If you answered yes to these inquiries, then you are armed for the daily chatter.

Wait 30 Days After Warnings
Rule 22

Few rules have saved me more than the 30-day preannouncement rule.

When Tibco Software preannounces a bad quarter, do you rush to buy it? Are you someone who put money to work in Waters right after its vicious preannouncement in spring 2005?

If you are, this rule is for you:

Always wait 30 days after an earnings preannouncement before you buy.

I designed it because I recognize how compelling some of these price adjustments are, but they often are not deep enough to make the stocks ultimately attractive.

Here's why. When a company preannounces a bad quarter, it isn't just looking at the past. It is looking at its order book, its future. Believe me, if there were any hope that the company wouldn't have to preannounce — hope in the form that maybe something could get better, not worse in the next 30 days — the company would wait.

Preannouncements signal ongoing weakness. That's why I like to wait 30 days to see if anything has gotten better before I pull the trigger to buy.

Sure, I will miss some great opportunities. Most of the time, though, after 30 days, I find that there is more woe and another leg down! If there isn't, then I might miss a point or even 2, but I will be on terra firma. That's the only thing you want to be stepping on in any market, including this one.

Beware the Wall Street Hype
Rule 23

Amateurs and professionals alike simply don't have enough respect for the Wall Street promotion machine.

They don't realize that balls can stay in the air much longer than they should. They don't understand that analysts and firms get behind stocks — sometimes irrationally, sometimes greedily — and they can keep the stocks propelled in an up direction well beyond reason. That's why I say,

Never underestimate the Wall Street promotion machine. Consider American International Group and Fannie Mae. Here are two companies with extensive banking opportunities dangling from one side and good track records hanging from the other. These had been two lovey blankets for the sell side for so long that they wouldn't give them up. Both stocks stayed up far too long, even in the post-Spitzer era, because the analysts viewed it as their job to keep the stocks up.

Now, I don't mind admitting that things are better now than they used to be. When I owned Cabela's right after it came public, the analysts who brought it public bent over backward not to recommend the stock, to the point that I missed the promotion machine.

Analysts now have some degree of conscience and are able to separate themselves from being flunkies for banking. But that doesn't mean they won't fall in love with some stocks and do everything they can to praise them long after they shouldn't. It tends to happen particularly to winners, stocks like the online education companies or the biotechs or some of the doggier software companies. The hope never ends. The hype never ends. Not until the cracks are so obvious that it is too late to get out.

In particular, when you short a stock remember that an analyst will twist any data point into a positive to get a stock juiced. Again, that's his job. Don't think badly of him; just be ready to reload when he does it.

Explain Your Picks
Rule 24

One of the worst things that ever happened to stock picking was the Internet, because it took away one of the most important brakes on the process, one of the most important warning systems, which is talking to someone about a buy. Now you can, with a stroke of a key, buy the stock of Sirius or Avaya without ever having to explain to another human being why you are doing so. This is why you should always:

Be able to explain your stock picks to someone else.

Buying stocks is a solitary event — too solitary. As I love to say, we all are prone to making mistakes, sometimes big ones. One way to cut down on these mistakes is to force yourself to articulate to someone else why you like Elan or why you think Biogen Idec is a winner.

When I was at my hedge fund, I always made every portfolio manager sell me the stock, literally sell it to me like a salesperson, before I would buy it. If you are in a position where you are picking stocks yourself, get someone to listen to you and let you articulate your reasoning.

Recently, one of my email correspondents said that her daughter bought the stock of Sony because of the Xbox. Ouch! That would be Microsoft that makes the Xbox. A mistake like that would have been picked up by most people who articulated their reasoning to others. The simple selling of the idea first, to someone else, can help you spot flaws.

I also like to ask people, "What's going to make this EMC go up, what's the catalyst?" Or, "Have we missed the move in this EnCana already?" And, "What's your edge?" These are among the questions I ask. If you can't answer, you shouldn't be buying.

At time of publication, Cramer was long Microsoft.

There's Always a Bull Market
Rule 25

I like to end every television and radio show I have with this signoff: "There is always a bull market somewhere, and I will try to find it for you." I say that because it's true.

Something is always working! Maybe it's gold, so you buy best-of-breed Newmont Mining. Maybe it's oil, so you buy some Halliburton. Maybe it's the chemical complex, so you pick up some Dow Chemical. I've seen moments where the only stocks in bull mode were in your supermarket or your medicine chest, stocks like Anheuser-Busch and PepsiCo.

Now, I know that might mean you have to do some trading. It might mean that you may have to look further and harder than your time and your inclination allow. That's OK, too. What matters is that you don't simply default to what's in bear mode because you are time-constrained or intellectually lazy.

This is not just a criticism of do-it-yourselfers. Many professionals stuck with the leg irons of the wrong tech stocks long after they should have. If they looked around, they might have spotted the bull market in oil, and bought something as simple as Exxon Mobil or as complex but rewarding as Ultra Pete.

Just remember:

There is always a bull market somewhere.

I will always end my shows with this tag line because it is vital for me to get you to think more opportunistically than the average investor does.

Oh, and by the way, it has the added advantage of being true. For 25 years there has always been a sector that works. You just have to find it. I know it, and I am honored if you will let me help you.

At the time of publication, Cramer was long Halliburton.

The Ratings Reports that follow provide detailed assessments of current or former charitable trust portfolio holdings illustrative of the following Rules:

Rule 1: **Bulls, Bears Make Money, Pigs Get Slaughtered**
Ratings Report: Prudential Financial Inc. (PRU)

Rule 4: **Buy Damaged Stocks, Not Damaged Companies**
Ratings Report: Express Scripts, Inc. (ESRX)

Rule 8: **Buy Best-of-Breed Companies**
Ratings Report: Coca-Cola Co. (KO)

February 26, 2012

NYSE: **PRU**

PRUDENTIAL FINANCIAL INC

TheStreet Ratings

BUY						HOLD			SELL						
A+	A	A-	B+	**B**	B-	C+	C	C-	D+	D	D-	E+	E	E-	F

BUY RATING SINCE 12/06/2011 TARGET PRICE $70.73

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.45	**2.36%**	**2.33**	**$28.8 Billion**	**$42.45-$66.57**	**$61.24**

Sector: **Financial Services** | Sub-Industry: **Life & Health Insurance** | Source: **S&P**

PRU BUSINESS DESCRIPTION

Prudential Financial, Inc., through its subsidiaries, provides various financial products and services in the United States, Asia, Europe, and Latin America. The company operates through three divisions: The U.S. Retirement Solutions and Investment Management, The U.S.

STOCK PERFORMANCE (%)

	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	35.57	-4.14	52.79

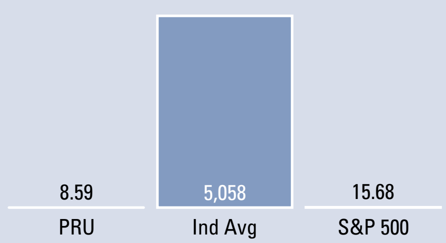
GROWTH (%)

	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	44.18	27.95	18.75
Net Income	287.57	14.74	74.15
EPS	179.54	24.86	67.04

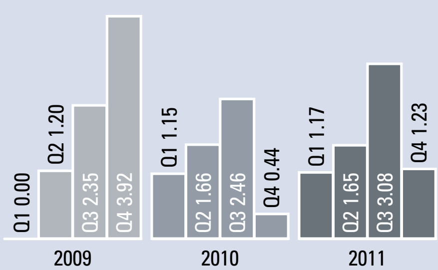
RETURN ON EQUITY (%)

	PRU	Ind Avg	S&P 500
Q4 2011	NA	7.23	14.77
Q4 2010	9.78	7.77	12.84
Q4 2009	12.55	4.05	3.25

P/E COMPARISON

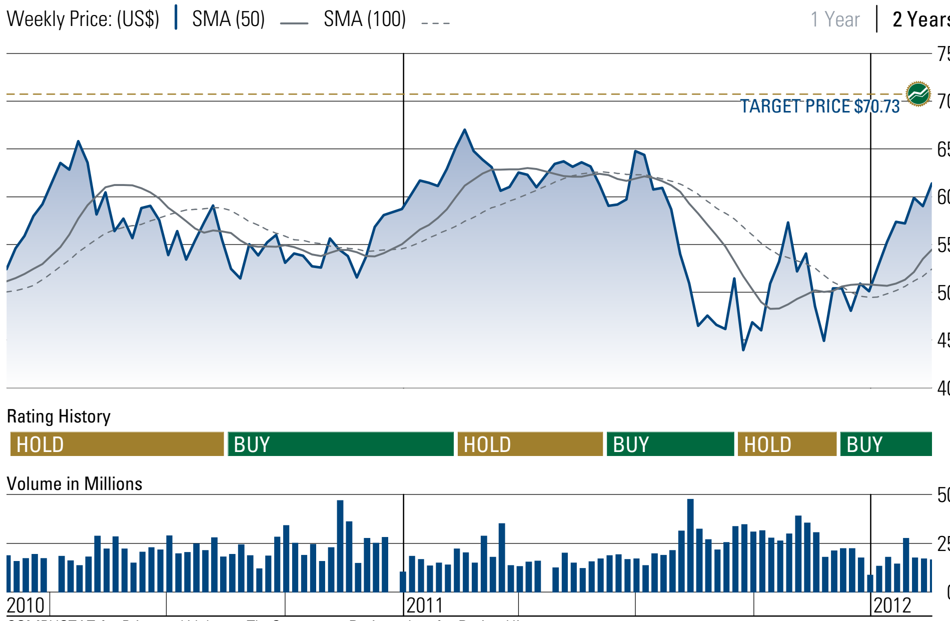


EPS ANALYSIS[1] ($)



NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.



COMPUSTAT for Price and Volume, TheStreet.com Ratings, Inc. for Rating History

RECOMMENDATION

We rate PRUDENTIAL FINANCIAL INC (PRU) a BUY. This is driven by a few notable strengths, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company's strengths can be seen in multiple areas, such as its robust revenue growth, increase in net income and impressive record of earnings per share growth. We feel these strengths outweigh the fact that the company has had lackluster performance in the stock itself.

HIGHLIGHTS

The revenue growth greatly exceeded the industry average of 7.0%. Since the same quarter one year prior, revenues rose by 44.2%. Growth in the company's revenue appears to have helped boost the earnings per share.

The net income growth from the same quarter one year ago has significantly exceeded that of the S&P 500 and the Insurance industry. The net income increased by 287.6% when compared to the same quarter one year prior, rising from $177.00 million to $686.00 million.

PRUDENTIAL FINANCIAL INC reported significant earnings per share improvement in the most recent quarter compared to the same quarter a year ago. The company has demonstrated a pattern of positive earnings per share growth over the past year. However, we anticipate underperformance relative to this pattern in the coming year. During the past fiscal year, PRUDENTIAL FINANCIAL INC increased its bottom line by earning $7.13 versus $5.71 in the prior year. For the next year, the market is expecting a contraction of 1.8% in earnings ($7.00 versus $7.13).

In its most recent trading session, PRU has closed at a price level that was not very different from its closing price of one year earlier. This is probably due to its weak earnings growth as well as other mixed factors. Looking ahead, although the push and pull of the overall market trend could certainly make a critical difference, we do not see any strong reason stemming from the company's fundamentals that would cause a continuation of last year's decline. In fact, the stock is now selling for less than others in its industry in relation to its current earnings.

TheStreet Ratings

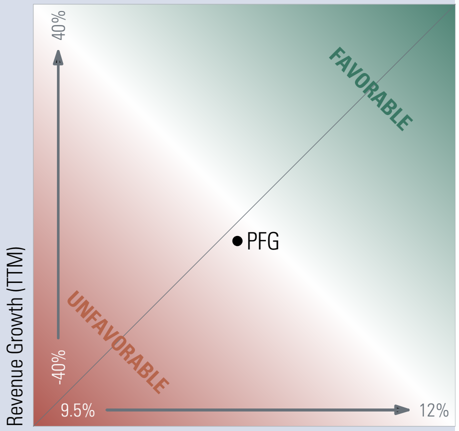
PRUDENTIAL FINANCIAL INC

Sector: Financial Services | Life & Health Insurance | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.45	**2.36%**	**2.33**	**$28.8 Billion**	**$42.45-$66.57**	**$61.24**

PEER GROUP ANALYSIS

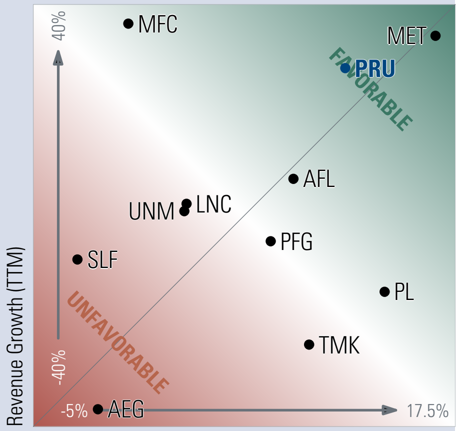
REVENUE GROWTH AND EBITDA MARGIN*



Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $2.5 Billion and $45.5 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD



Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -36.7% and 36.3%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The US insurance industry provides a broad range of financial security products for individuals and businesses. The industry includes primary insurers, reinsurers and agency and brokerage firms. Insurance companies can be categorized into life and health, property and casualty and reinsurance. Premiums and investment income are the primary component of overall revenue. The industry is mature and dominated by large companies with intense price competition. The US insurance industry has witnessed a great deal of merger and acquisition activity in recent years.

The life insurance industry remains highly competitive due to rapid product development and shortened product life-cycles. In recent years, the L&H segment has been characterized by a dramatic product shift from traditional life insurance to annuity and retirement asset management. Life insurance in the US expanded to more than $578 billion, or nearly half of total business line. This can be attributed to an increased focus on retirement and estate planning, which has led to robust sales of combined savings protection products and annuities. The trend toward the single premium business and pension and annuities products drove sales. Sweeping national health insurance reform was signed into law in 2010 that allows young people to stay on their parent's health plan, begins to close the Medicare drug plan donut hole, and phases in mandatory coverage of all Americans.

Significant challenges have arisen for property and casualty insurance companies. However, the absence of any recent major casualty or natural calamity has benefited the industry.

The US reinsurance market has entered a soft phase of the cycle and will remain as such assuming no major catastrophes in the coming quarters. The primary and reinsurance sectors experienced divergent pricing trends, but the reinsurance market remains relatively stable.

The insurance industry is not immune to the financial troubles that plague the rest of the US economy. Despite having minor exposure to higher risk mortgage-related assets, the slowdown in the US economy may adversely impact insurers' performance in the near future. Insurers face challenges related to catastrophe losses, increasing price pressure and changes in the legal and regulatory environment, all of which could erode future underwriting performance and profitability. On a positive note, US insurers may embrace international market opportunities in response to increased market saturation at the domestic level.

PEER GROUP: Insurance

Ticker	Company Name	Recent Price ($)	Market Cap ($M)	Price/ Earnings	Net Sales TTM ($M)	Net Income TTM ($M)
PRU	**PRUDENTIAL FINANCIAL INC**	**61.24**	**28,783**	**8.59**	**49,006.00**	**3,666.00**
PFG	PRINCIPAL FINANCIAL GRP INC	27.89	8,664	13.03	8,709.60	715.00
LNC	LINCOLN NATIONAL CORP	25.18	7,604	31.48	10,635.20	293.70
UNM	UNUM GROUP	23.24	6,802	32.73	10,278.00	235.40
TMK	TORCHMARK CORP	48.78	4,973	10.28	2,543.85	517.93
MET	METLIFE INC	38.21	45,489	6.07	70,262.00	6,981.00
PL	PROTECTIVE LIFE CORP	28.50	2,530	7.27	2,633.78	339.07
MFC	MANULIFE FINANCIAL CORP	12.49	22,496	1,249.00	49,982.00	129.00
AFL	AFLAC INC	47.24	22,028	11.25	22,171.00	1,964.00
AEG	AEGON NV	5.19	12,877	NM	40,678.14	1,127.35
SLF	SUN LIFE FINANCIAL INC	21.30	12,520	NM	22,581.00	-200.00

The peer group comparison is based on Major Life & Health Insurance companies of comparable size.

TheStreet Ratings

PRUDENTIAL FINANCIAL INC

Sector: Financial Services | Life & Health Insurance | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
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PRUDENTIAL FINANCIAL INC
751 Broad St
Newark, NJ 07102-3714
USA
Phone: 973-802-6000
http://www.investor.prudential.com

STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of PRU shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock's strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock's valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR	SCORE
Growth — Measures the growth of both the company's income statement and cash flow. On this factor, PRU has a growth score better than 80% of the stocks we rate.	4.5 out of 5 stars (weak … strong)
Total Return — Measures the historical price movement of the stock. The stock performance of this company has beaten 60% of the companies we cover.	3.5 out of 5 stars (weak … strong)
Efficiency — Measures the strength and historic growth of a company's return on invested capital. The company has generated more income per dollar of capital than 50% of the companies we review.	3.0 out of 5 stars (weak … strong)
Price volatility — Measures the volatility of the company's stock price historically. The stock is less volatile than 60% of the stocks we monitor.	3.5 out of 5 stars (weak … strong)
Solvency — Measures the solvency of the company based on several ratios. The company is more solvent than 70% of the companies we analyze.	4.0 out of 5 stars (weak … strong)
Income — Measures dividend yield and payouts to shareholders. The company's dividend is higher than 70% of the companies we track.	4.0 out of 5 stars (weak … strong)

THESTREET.COM RATINGS RESEARCH METHODOLOGY

TheStreet.com Ratings' stock model projects a stock's total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e.how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

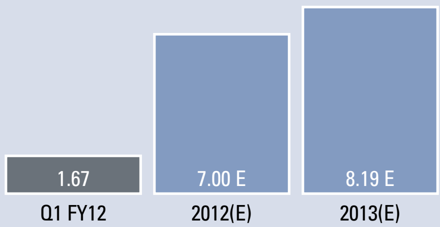
PRUDENTIAL FINANCIAL INC

Sector: Financial Services | Life & Health Insurance | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.45	**2.36%**	**2.33**	**$28.8 Billion**	**$42.45-$66.57**	**$61.24**

Consensus EPS Estimates[2] ($)

IBES consensus estimates are provided by Thomson Financial



INCOME STATEMENT

	Q4 FY11	Q4 FY10
Net Sales ($mil)	11,695.00	8,111.00
EBITDA ($mil)	NA	NA
EBIT ($mil)	NA	416.00
Net Income ($mil)	686.00	177.00

BALANCE SHEET

	Q4 FY11	Q4 FY10
Cash & Equiv. ($mil)	NA	46,667.00
Total Assets ($mil)	624,500.00	539,854.00
Total Debt ($mil)	NA	31,520.00
Equity ($mil)	NA	32,415.00

PROFITABILITY

	Q4 FY11	Q4 FY10
Gross Profit Margin	NA	10.43%
EBITDA Margin	NA	NA
Operating Margin	NA	5.13%
Sales Turnover	0.08	0.07
Return on Assets	0.59%	0.59%
Return on Equity	NA	9.78%

DEBT

	Q4 FY11	Q4 FY10
Current Ratio	NA	NA
Debt/Capital	NA	0.49
Interest Expense	299.00	273.00
Interest Coverage	NA	1.52

SHARE DATA

	Q4 FY11	Q4 FY10
Shares outstanding (mil)	474	484
Div / share	1.45	1.15
EPS	1.23	0.44
Book value / share	NA	67.00
Institutional Own %	NA	NA
Avg Daily Volume	3,594,106	5,992,381

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS

The company has grown sales and net income significantly, outpacing the average growth rates of competitors within its industry.

NYSE: **PRU**

TheStreet Ratings

PRUDENTIAL FINANCIAL INC

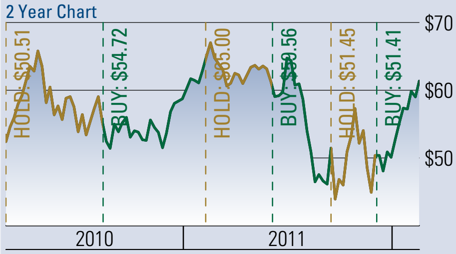
Sector: Financial Services | Life & Health Insurance | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.45	**2.36%**	**2.33**	**$28.8 Billion**	**$42.45-$66.57**	**$61.24**

RATINGS HISTORY

Our rating for PRUDENTIAL FINANCIAL INC was recently upgraded from Hold to Buy on 12/6/2011. As of 2/23/2012, the stock was trading at a price of $61.24 which is 8.0% below its 52-week high of $66.57 and 44.3% above its 52-week low of $42.45.

2 Year Chart



MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
12/6/11	$51.41	Upgrade	Hold	Buy
9/16/11	$51.45	Downgrade	Buy	Hold
6/7/11	$59.56	Upgrade	Hold	Buy
2/10/11	$65.00	Downgrade	Buy	Hold
8/16/10	$54.72	Upgrade	Hold	Buy
2/23/10	$50.51	No Change	Hold	Hold

Price reflects the closing price as of the date listed, if available

RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET.COM RATINGS

(as of 2/23/2012)

43.48% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

30.77% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

25.74% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

TheStreet.com Ratings, Inc.
262 Washington Street, 4th Floor
Boston, MA 02108
www.thestreet.com

Research Contact: 617-531-9717
Sales Contact: 866-321-8726

VALUATION

BUY. The current P/E ratio indicates a significant discount compared to an average of 5058.04 for the Insurance industry and a discount compared to the S&P 500 average of 15.68. The price-to-sales ratio is well below both the S&P 500 average and the industry average, indicating a discount. After reviewing these and other key valuation criteria, PRUDENTIAL FINANCIAL INC proves to trade at a discount to investment alternatives within the industry.

Price/Earnings
1 | 2 | 3 | 4 | **5** (premium – discount)

PRU 8.59 **Peers 5058.04**

- Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
- PRU is trading at a significant discount to its peers.

Price/CashFlow
1 | 2 | 3 | 4 | 5 (premium – discount)

PRU NA **Peers 4905.07**

- Neutral. The P/CF ratio is the stock's price divided by the sum of the company's cash flow from operations. It is useful for comparing companies with different capital requirements or financing structures.
- Ratio not available.

Price/Projected Earnings
1 | 2 | 3 | **4** | 5 (premium – discount)

PRU 7.48 **Peers 11.10**

- Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
- PRU is trading at a discount to its peers.

Price to Earnings/Growth
1 | 2 | 3 | 4 | 5 (premium – discount)

PRU NA **Peers 3.70**

- Neutral. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- Ratio not available.

Price/Book
1 | 2 | 3 | 4 | 5 (premium – discount)

PRU NA **Peers 414.43**

- Neutral. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- Ratio not available.

Earnings Growth
1 | 2 | 3 | 4 | **5** (lower – higher)

PRU 24.86 **Peers -40.23**

- Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- PRU is expected to have an earnings growth rate that significantly exceeds its peers.

Price/Sales
1 | 2 | 3 | 4 | **5** (premium – discount)

PRU 0.59 **Peers 389.88**

- Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- PRU is trading at a significant discount to its industry on this measurement.

Sales Growth
1 | 2 | 3 | 4 | **5** (lower – higher)

PRU 27.95 **Peers 7.87**

- Higher. A sales growth rate that exceeds the industry implies that a company is gaining market share.
- PRU has a sales growth rate that significantly exceeds its peers.

February 26, 2012

NASDAQ: **ESRX**

EXPRESS SCRIPTS INC

TheStreet Ratings

BUY						HOLD			SELL							
A+	A	A-	B+	**B**	B-	C+	C	C-	D+	D	D-	E+	E	E-	F	

BUY RATING SINCE 02/23/2010 TARGET PRICE $60.76

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
NA	**NA**	**1.11**	**$25.5 Billion**	**$34.47-$60.89**	**$52.61**

Sector: **Health Care** | Sub-Industry: **Health Care Services** | Source: **S&P**

ESRX BUSINESS DESCRIPTION

Express Scripts Inc. provides a range of pharmacy benefit management (PBM) services in North America.

STOCK PERFORMANCE (%)

	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	23.81	-2.05	23.91

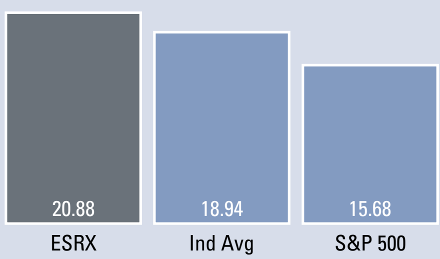
GROWTH (%)

	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	7.39	2.69	28.17
Net Income	-11.90	8.00	18.02
EPS	-4.84	13.51	17.59

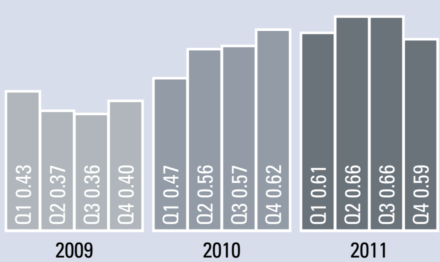
RETURN ON EQUITY (%)

	ESRX	Ind Avg	S&P 500
Q4 2011	51.57	19.51	14.77
Q4 2010	33.40	19.13	12.84
Q4 2009	23.27	17.11	3.25

P/E COMPARISON



EPS ANALYSIS[1] ($)



NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.

COMPUSTAT for Price and Volume, TheStreet.com Ratings, Inc. for Rating History

RECOMMENDATION

We rate EXPRESS SCRIPTS INC (ESRX) a BUY. This is driven by multiple strengths, which we believe should have a greater impact than any weaknesses, and should give investors a better performance opportunity than most stocks we cover. The company's strengths can be seen in multiple areas, such as its revenue growth, notable return on equity and good cash flow from operations. We feel these strengths outweigh the fact that the company has had lackluster performance in the stock itself.

HIGHLIGHTS

Despite its growing revenue, the company underperformed as compared with the industry average of 9.6%. Since the same quarter one year prior, revenues slightly increased by 7.4%. This growth in revenue does not appear to have trickled down to the company's bottom line, displayed by a decline in earnings per share.

The company's current return on equity greatly increased when compared to its ROE from the same quarter one year prior. This is a signal of significant strength within the corporation. Compared to other companies in the Health Care Providers & Services industry and the overall market, EXPRESS SCRIPTS INC's return on equity significantly exceeds that of both the industry average and the S&P 500.

Net operating cash flow has significantly increased by 93.20% to $532.10 million when compared to the same quarter last year. In addition, EXPRESS SCRIPTS INC has also vastly surpassed the industry average cash flow growth rate of -101.88%.

EXPRESS SCRIPTS INC' earnings per share from the most recent quarter came in slightly below the year earlier quarter. This company has reported somewhat volatile earnings recently. But, we feel it is poised for EPS growth in the coming year. During the past fiscal year, EXPRESS SCRIPTS INC increased its bottom line by earning $2.52 versus $2.22 in the prior year. This year, the market expects an improvement in earnings ($3.60 versus $2.52).

The gross profit margin for EXPRESS SCRIPTS INC is currently extremely low, coming in at 7.50%. Regardless of ESRX's low profit margin, it has managed to increase from the same period last year. Despite the mixed results of the gross profit margin, the net profit margin of 2.40% trails the industry average.

TheStreet Ratings

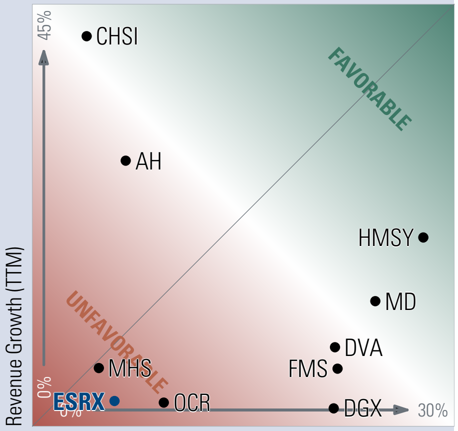
EXPRESS SCRIPTS INC

Sector: Health Care | Health Care Services | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
NA	**NA**	**1.11**	**$25.5 Billion**	**$34.47-$60.89**	**$52.61**

PEER GROUP ANALYSIS

REVENUE GROWTH AND EBITDA MARGIN*

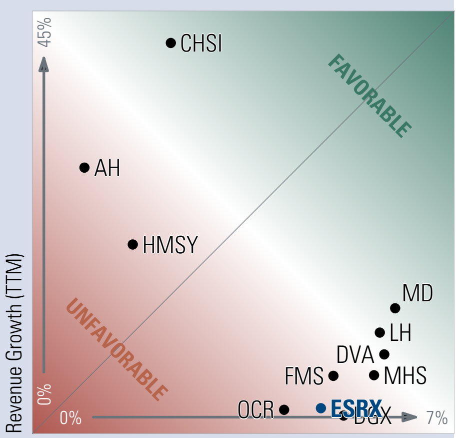


EBITDA Margin (TTM)

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $2.4 Billion and $25.5 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD



Earnings Yield (TTM)

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between 1.9% and 41.6%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The healthcare providers and services industry includes establishments offering healthcare facilities and managed care services such as hospitals, long-term care centers, assisted living facilities, outpatient rehabilitation clinics, outpatient dialysis centers, radiation oncology facilities and ambulatory surgical suites. The industry has witnessed continued growth during recent years. An aging population, increasing consumer awareness and advancement in technology will remain primary growth drivers in the near future.

Healthcare spending in the US exceed $2 trillion per year. A major shift in healthcare spending - from the private to the public sector - is expected as more and more baby boomers enter the Medicare system. In addition to demographic factors, the passage of comprehensive healthcare reform legislation including an individual mandate to have health insurance will reshape the industry in the coming decade.

The largest two segments of publically funded healthcare are Medicaid and Medicare. Medicaid is a means-tested program for the poor funded at the federal level and state level. Medicare is a single-payer healthcare program entirely funded at the federal level and focuses on the older population of people age 65 and older.

Small businesses, which have struggled to provide adequate health insurance to employees, will receive tax benefits to offer health insurance to their employees. Most large companies offer benefits to compete in the labor market, even though the associated outflow has a significant impact on the bottom line. Collection challenges contribute to rising expenses for providers. Administrative expenses, which include billing, collection and payment processes account for up to 30% of all expenditures. Cost-saving initiatives by payers, providers and employers have helped keep expenses under check, but have been generally insufficient to bring about any systemic optimization.

The introduction of consumer-driven healthcare (CDHC) is a significant step toward disrupting this cost cycle. CDHC increases consumer awareness regarding cost and quality of healthcare while providing greater control over personal health management.

Looking forward, more brand-name drugs will continue to become available as generics over the next few years. This could help healthcare providers realize savings in their pharmacy costs. The individual mandate for healthcare insurance creates a solid base of customers for the healthcare providers and services industry. This may build in a steady growth rate for the healthcare providers and services industry in the intermediate future.

PEER GROUP: Health Care Providers & Services

Ticker	Company Name	Recent Price ($)	Market Cap ($M)	Price/ Earnings	Net Sales TTM ($M)	Net Income TTM ($M)
ESRX	**EXPRESS SCRIPTS INC**	**52.61**	**25,504**	**20.88**	**46,272.30**	**1,275.80**
DGX	QUEST DIAGNOSTICS INC	57.24	9,063	19.34	7,510.49	470.57
LH	LABORATORY CP OF AMER HLDGS	88.00	8,721	17.32	5,542.30	519.70
DVA	DAVITA INC	85.97	8,050	17.13	6,982.21	478.00
OCR	OMNICARE INC	34.18	3,883	23.90	6,182.92	86.92
MD	MEDNAX INC	74.30	3,634	16.62	1,588.25	218.00
CHSI	CATALYST HEALTH SOLUTIONS	60.98	3,051	43.56	5,329.59	66.99
HMSY	HMS HOLDINGS CORP	33.30	2,850	59.83	363.83	47.79
MHS	MEDCO HEALTH SOLUTIONS INC	64.05	24,859	17.64	70,063.30	1,455.70
AH	ACCRETIVE HEALTH INC	24.24	2,381	115.43	736.22	21.51
FMS	FRESENIUS MEDICAL CARE AG&C	70.66	21,176	20.02	12,795.06	1,071.15

The peer group comparison is based on Major Health Care Services companies of comparable size.

TheStreet Ratings

EXPRESS SCRIPTS INC

Sector: Health Care | Health Care Services | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
NA	**NA**	**1.11**	**$25.5 Billion**	**$34.47-$60.89**	**$52.61**

COMPANY DESCRIPTION

Express Scripts, Inc. provides a range of pharmacy benefit management (PBM) services in North America. The company's PBM services include retail network pharmacy management and retail drug card programs; home delivery pharmacy services; specialty pharmacy services; patient care contact centers; benefit plan design and consultation; drug formulary management; compliance and therapy management programs; information reporting and analysis programs; rebate programs, electronic claims processing, and drug utilization review; consumer health and drug information; bio-pharma services, including reimbursement and customized logistics solutions; medication therapy and safety through pharmacogenomics; and assistance programs for low-income patients. It also engages in the distribution of pharmaceuticals and medical supplies to providers and clinics; fertility pharmaceuticals requiring special handling or packaging; and sample units to physicians, as well as the verification of practitioner licensure, healthcare account administration, and implementation of consumer-directed healthcare solutions. It serves HMOs, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans, government health programs, office-based oncologists, renal dialysis clinics, ambulatory surgery centers, primary care physicians, and retina specialists. Express Scripts was founded in 1986 and is headquartered in St. Louis, Missouri.

EXPRESS SCRIPTS INC
One Express Way
St. Louis, MO 63121
USA
Phone: 314-996-0900
Fax: 314-291-3669
http://www.express-scripts.com

STOCK-AT-A-GLANCE

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Solvency — Measures the solvency of the company based on several ratios. The company is more solvent than 50% of the companies we analyze.	3.0 out of 5 stars (weak ★★★☆☆ strong)
Income — Measures dividend yield and payouts to shareholders. This company pays no dividends.	0.5 out of 5 stars (weak ½☆☆☆☆ strong)

THESTREET.COM RATINGS RESEARCH METHODOLOGY

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EXPRESS SCRIPTS INC

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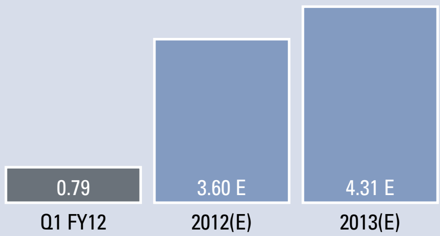

INCOME STATEMENT

	Q4 FY11	Q4 FY10
Net Sales ($mil)	12,159.90	11,322.70
EBITDA ($mil)	713.00	658.90
EBIT ($mil)	647.10	595.10
Net Income ($mil)	290.40	329.60

BALANCE SHEET

	Q4 FY11	Q4 FY10
Cash & Equiv. ($mil)	5,637.90	540.00
Total Assets ($mil)	15,607.00	10,557.80
Total Debt ($mil)	8,076.30	2,493.80
Equity ($mil)	2,473.70	3,606.60

PROFITABILITY

	Q4 FY11	Q4 FY10
Gross Profit Margin	7.53%	7.47%
EBITDA Margin	5.86%	5.82%
Operating Margin	5.32%	5.26%
Sales Turnover	2.96	4.27
Return on Assets	8.17%	11.19%
Return on Equity	51.57%	33.40%

DEBT

	Q4 FY11	Q4 FY10
Current Ratio	1.48	0.75
Debt/Capital	0.77	0.41
Interest Expense	52.40	40.10
Interest Coverage	12.35	14.84

SHARE DATA

	Q4 FY11	Q4 FY10
Shares outstanding (mil)	485	528
Div / share	0.00	0.00
EPS	0.59	0.62
Book value / share	5.10	6.83
Institutional Own %	NA	NA
Avg Daily Volume	6,803,623	8,673,015

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS

EXPRESS SCRIPTS INC's gross profit margin for the fourth quarter of its fiscal year 2011 is essentially unchanged when compared to the same period a year ago. Even though sales increased, the net income has decreased. EXPRESS SCRIPTS INC has average liquidity. Currently, the Quick Ratio is 1.38 which shows that technically this company has the ability to cover short-term cash needs. The company's liquidity has increased from the same period last year, indicating improving cash flow.

At the same time, stockholders' equity ("net worth") has significantly decreased by 31.41% from the same quarter last year. Together, the key liquidity measurements indicate that it is relatively unlikely that the company will face financial difficulties in the near future.

TheStreet Ratings

EXPRESS SCRIPTS INC

Sector: Health Care | Health Care Services | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
NA	**NA**	**1.11**	**$25.5 Billion**	**$34.47-$60.89**	**$52.61**

RATINGS HISTORY

Our rating for EXPRESS SCRIPTS INC has not changed since 11/9/2001. As of 2/23/2012, the stock was trading at a price of $52.61 which is 13.6% below its 52-week high of $60.89 and 52.6% above its 52-week low of $34.47.

MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
2/23/10	$44.00	No Change	Buy	Buy

Price reflects the closing price as of the date listed, if available

RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET.COM RATINGS

(as of 2/23/2012)

43.48% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

30.77% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

25.74% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

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Sales Contact: 866-321-8726

VALUATION

BUY. EXPRESS SCRIPTS INC's P/E ratio indicates a premium compared to an average of 18.94 for the Health Care Providers & Services industry and a premium compared to the S&P 500 average of 15.68. For additional comparison, its price-to-book ratio of 10.31 indicates a significant premium versus the S&P 500 average of 2.19 and a significant premium versus the industry average of 3.54. The current price-to-sales ratio is well below the S&P 500 average and is also below the industry average, indicating a discount. After reviewing these and other key valuation criteria, EXPRESS SCRIPTS INC proves to trade at a premium to investment alternatives within the industry.

Price/Earnings — 1 | **2** | 3 | 4 | 5 (premium — discount)

ESRX 20.88 — **Peers 18.94**

- Premium. A higher P/E ratio than its peers can signify a more expensive stock or higher growth expectations.
- ESRX is trading at a premium to its peers.

Price/Projected Earnings — 1 | 2 | **3** | 4 | 5 (premium — discount)

ESRX 12.21 — **Peers 15.02**

- Average. An average price-to-projected earnings ratio can signify an industry neutral stock price and average future growth expectations.
- ESRX is trading at a valuation on par with its peers.

Price/Book — **1** | 2 | 3 | 4 | 5 (premium — discount)

ESRX 10.31 — **Peers 3.54**

- Premium. A higher price-to-book ratio makes a stock less attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- ESRX is trading at a significant premium to its peers.

Price/Sales — 1 | 2 | 3 | **4** | 5 (premium — discount)

ESRX 0.55 — **Peers 0.70**

- Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- ESRX is trading at a discount to its industry on this measurement.

Price/CashFlow — 1 | 2 | **3** | 4 | 5 (premium — discount)

ESRX 11.63 — **Peers 11.12**

- Average. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- ESRX is trading at a valuation on par to its peers.

Price to Earnings/Growth — 1 | 2 | 3 | 4 | **5** (premium — discount)

ESRX 0.49 — **Peers 1.18**

- Discount. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- ESRX trades at a significant discount to its peers.

Earnings Growth — **1** | 2 | 3 | 4 | 5 (lower — higher)

ESRX 13.51 — **Peers 23.61**

- Lower. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- However, ESRX is expected to significantly trail its peers on the basis of its earnings growth rate.

Sales Growth — **1** | 2 | 3 | 4 | 5 (lower — higher)

ESRX 2.69 — **Peers 9.37**

- Lower. A sales growth rate that trails the industry implies that a company is losing market share.
- ESRX significantly trails its peers on the basis of sales growth

February 26, 2012

NYSE: **KO**

COCA-COLA CO

BUY						HOLD			SELL							BUY	RATING SINCE	02/23/2010
A+	**A**	A-	B+	B	B-	C+	C	C-	D+	D	D-	E+	E	E-	F		TARGET PRICE	$79.90

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.88	**2.71%**	**0.53**	**$157.1 Billion**	**$61.29-$71.77**	**$69.18**

Sector: **Consumer Non-Discretionary** | Sub-Industry: **Soft Drinks** | Source: **S&P**

KO BUSINESS DESCRIPTION

The Coca-Cola Company manufactures, distributes, and markets nonalcoholic beverages worldwide. It principally offers sparkling and still beverages.

STOCK PERFORMANCE (%)

	3 Mo.	1 Yr.	3 Yr (Ann)
Price Change	6.64	8.24	18.01

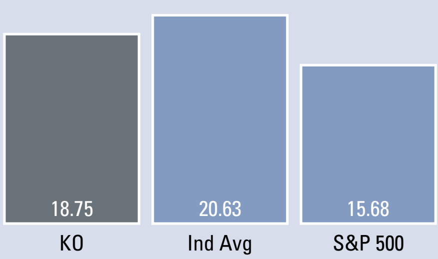
GROWTH (%)

	Last Qtr	12 Mo.	3 Yr CAGR
Revenues	5.20	32.58	13.38
Net Income	-71.34	-27.42	13.86
EPS	-70.74	-26.94	14.01

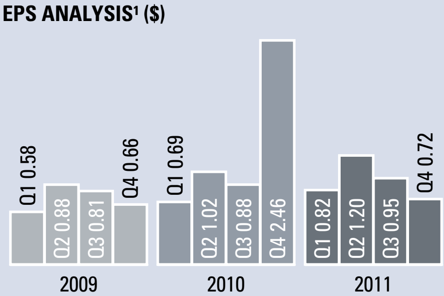
RETURN ON EQUITY (%)

	KO	Ind Avg	S&P 500
Q4 2011	27.10	20.46	14.77
Q4 2010	38.09	21.43	12.84
Q4 2009	27.52	19.95	3.25

P/E COMPARISON



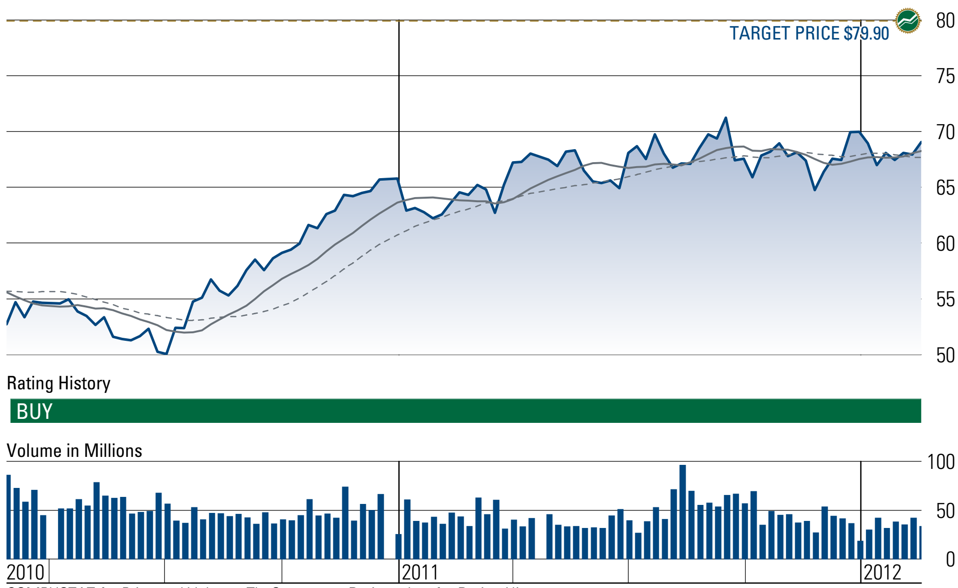
EPS ANALYSIS[1] ($)



NA = not available NM = not meaningful

1 Compustat fiscal year convention is used for all fundamental data items.

Weekly Price: (US$) | SMA (50) — SMA (100) - - - 1 Year | 2 Years



COMPUSTAT for Price and Volume, TheStreet.com Ratings, Inc. for Rating History

RECOMMENDATION

We rate COCA-COLA CO (KO) a BUY. This is based on the convergence of positive investment measures, which should help this stock outperform the majority of stocks that we rate. The company's strengths can be seen in multiple areas, such as its revenue growth, good cash flow from operations, expanding profit margins, largely solid financial position with reasonable debt levels by most measures and solid stock price performance. We feel these strengths outweigh the fact that the company has had sub par growth in net income.

HIGHLIGHTS

KO's revenue growth has slightly outpaced the industry average of 2.2%. Since the same quarter one year prior, revenues slightly increased by 5.2%. This growth in revenue does not appear to have trickled down to the company's bottom line, displayed by a decline in earnings per share.

Net operating cash flow has increased to $2,674.00 million or 15.85% when compared to the same quarter last year. In addition, COCA-COLA CO has also modestly surpassed the industry average cash flow growth rate of 11.57%.

The gross profit margin for COCA-COLA CO is rather high; currently it is at 64.90%. Regardless of KO's high profit margin, it has managed to decrease from the same period last year. Despite the mixed results of the gross profit margin, KO's net profit margin of 15.00% compares favorably to the industry average.

KO's debt-to-equity ratio of 0.90 is somewhat low overall, but it is high when compared to the industry average, implying that the management of the debt levels should be evaluated further. Regardless of the somewhat mixed results with the debt-to-equity ratio, the company's quick ratio of 0.78 is weak.

COCA-COLA CO has exprienced a steep decline in earnings per share in the most recent quarter in comparison to its performance from the same quarter a year ago. The company has suffered a declining pattern of earnings per share over the past year. However, we anticipate this trend reversing over the coming year. During the past fiscal year, COCA-COLA CO reported lower earnings of $3.69 versus $5.05 in the prior year. This year, the market expects an improvement in earnings ($4.07 versus $3.69).

February 26, 2012

NYSE: **KO**

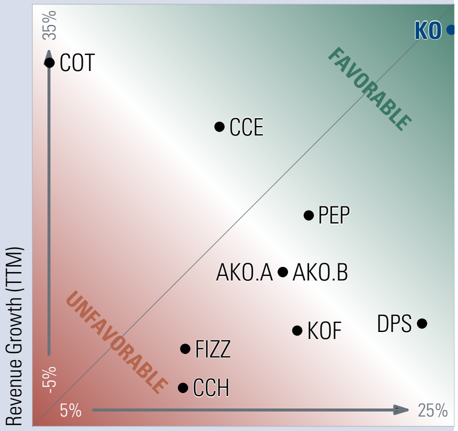
COCA-COLA CO

Sector: Consumer Non-Discretionary | Soft Drinks | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.88	**2.71%**	**0.53**	**$157.1 Billion**	**$61.29-$71.77**	**$69.18**

PEER GROUP ANALYSIS

REVENUE GROWTH AND EBITDA MARGIN*

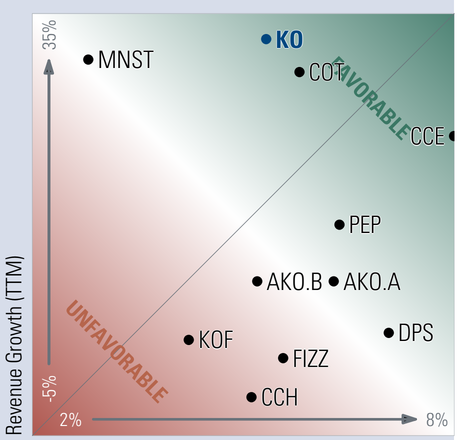


EBITDA Margin (TTM)

Companies with higher EBITDA margins and revenue growth rates are outperforming companies with lower EBITDA margins and revenue growth rates. Companies for this scatter plot have a market capitalization between $639.1 Million and $157.1 Billion. Companies with NA or NM values do not appear.

*EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization.

REVENUE GROWTH AND EARNINGS YIELD



Earnings Yield (TTM)

Companies that exhibit both a high earnings yield and high revenue growth are generally more attractive than companies with low revenue growth and low earnings yield. Companies for this scatter plot have revenue growth rates between -1.4% and 32.6%. Companies with NA or NM values do not appear.

INDUSTRY ANALYSIS

The US beverage industry is broadly divided into alcoholic and non-alcoholic segments. The alcoholic segment includes beer, wine, and spirits. The non-alcoholic segment includes carbonated soft drinks (CSDs), fruit beverages, bottled water, milk, sports drinks, ready-to-drink (RTD) tea, and RTD coffee. The industry has around 4000 manufactures and distributors generating upwards of $70 billion in annual revenue. The industry is highly competitive on pricing, packaging, marketing, and developing new products. The two biggest players are Coca-Cola (KO) and PepsiCo (PEP), which together hold more than 50% of the market.

The non-alcoholic beverage segment represents 60% of the market. Premium wineries revenue has registered annual growth of 8% over recent years and energy drink volume continues to surge.

Faced with limited volume growth in developed markets, high-growth developing markets are increasingly important to the bottom line. Mergers, acquisitions, and partnerships are on the rise as food and drink brands look to establish or expand their presence in international markets. PepsiCo and Pepsi Bottling Group Inc. acquired a 75% stake in Russia’s Lebedyansky JSC for around $2.0 billion in March 2008 and Coca-Cola bid $2.3 billion for China Huiyuan Juice Group Ltd. in September 2008.

Health and convenience remain major challenges and play a significant role in shaping product strategies. Beverages have been in the spotlight over the last five years because of research that links ingredients, such as sugars and acids, with prevalent chronic diseases, such as obesity, diabetes, and dental decay. Rising environmental concerns also present a challenge. The production, distribution, and sale of beverages in the United States are subject to the Federal Food, Drug, and Cosmetic Act, the Dietary Supplement Health and Education Act of 1994, and the Occupational Safety and Health Act. These acts, various environmental statutes, and numerous other federal, state, and local statutes are applicable to the production, transportation, sale, safety, advertisement, and ingredients. Industry fragmentation also poses a major threat. To overcome this, companies are acquiring smaller players or developing independent plants. Coca-Cola’s Monster distribution will help bottlers realize economies of scale in their direct store distribution system.

PEER GROUP: Beverages

Ticker	Company Name	Recent Price ($)	Market Cap ($M)	Price/ Earnings	Net Sales TTM ($M)	Net Income TTM ($M)
KO	**COCA-COLA CO**	**69.18**	**157,124**	**18.75**	**46,564.00**	**8,572.00**
PEP	PEPSICO INC	63.13	98,698	15.70	66,504.00	6,443.00
MNST	MONSTER BEVERAGE CORP	54.87	9,556	35.75	1,703.23	286.22
CCE	COCA-COLA ENTERPRISES INC	28.61	8,654	12.49	8,284.00	749.00
DPS	DR PEPPER SNAPPLE GROUP INC	38.87	8,243	14.13	5,903.00	606.00
FIZZ	NATIONAL BEVERAGE CORP	16.69	772	17.95	611.09	43.05
CCH	COCA-COLA HELLENIC BOTTLING	18.95	6,946	19.54	8,892.08	348.84
COT	COTT CORP QUE	6.72	639	17.23	2,334.60	37.60
KOF	COCA-COLA FEMSA SAB DE CV	100.74	4,129	23.65	8,716.86	786.52
AKO.B	EMBOTELLADORA ANDINA SA	31.34	3,627	19.23	1,964.94	207.16
AKO.A	EMBOTELLADORA ANDINA SA	25.90	3,627	15.89	1,964.94	207.16

The peer group comparison is based on Major Soft Drinks companies of comparable size.

TheStreet Ratings

COCA-COLA CO

Sector: Consumer Non-Discretionary | Soft Drinks | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.88	**2.71%**	**0.53**	**$157.1 Billion**	**$61.29-$71.77**	**$69.18**

COMPANY DESCRIPTION

The Coca-Cola Company manufactures, distributes, and markets nonalcoholic beverage concentrates and syrups worldwide. It principally offers sparkling and still beverages. The company's sparkling beverages include nonalcoholic ready-to-drink beverages with carbonation, such as energy drinks, and carbonated waters and flavored waters. Its still beverages consist of nonalcoholic beverages without carbonation, including noncarbonated waters, flavored waters and enhanced waters, noncarbonated energy drinks, juices and juice drinks, ready-to-drink teas and coffees, and sports drinks. The Coca-Cola Company also offers fountain syrups, syrups, and concentrates, such as flavoring ingredients and sweeteners. It markets its nonalcoholic beverages primarily under the Coca-Cola, Diet Coke, Fanta, and Sprite names. The company sells its finished beverage products primarily to distributors, and beverage concentrates and syrups to bottling and canning operators, distributors, fountain wholesalers, and fountain retailers. The Coca-Cola Company was founded in 1886 and is headquartered in Atlanta, Georgia.

COCA-COLA CO
1 Coca Cola Plz NW
Atlanta, GA 30313-2499
USA
Phone: 404-676-2121
http://www.coca-cola.com

STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of KO shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock's strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock's valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR	SCORE	weak → strong
Growth — Measures the growth of both the company's income statement and cash flow. On this factor, KO has a growth score better than 70% of the stocks we rate.	4.0 out of 5 stars	★★★★☆
Total Return — Measures the historical price movement of the stock. The stock performance of this company has beaten 70% of the companies we cover.	4.0 out of 5 stars	★★★★☆
Efficiency — Measures the strength and historic growth of a company's return on invested capital. The company has generated more income per dollar of capital than 90% of the companies we review.	5.0 out of 5 stars	★★★★★
Price volatility — Measures the volatility of the company's stock price historically. The stock is less volatile than 90% of the stocks we monitor.	5.0 out of 5 stars	★★★★★
Solvency — Measures the solvency of the company based on several ratios. The company is more solvent than 90% of the companies we analyze.	5.0 out of 5 stars	★★★★★
Income — Measures dividend yield and payouts to shareholders. The company's dividend is higher than 80% of the companies we track.	4.5 out of 5 stars	★★★★½

THESTREET.COM RATINGS RESEARCH METHODOLOGY

TheStreet.com Ratings' stock model projects a stock's total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e.how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock's performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

February 26, 2012

NYSE: **KO**

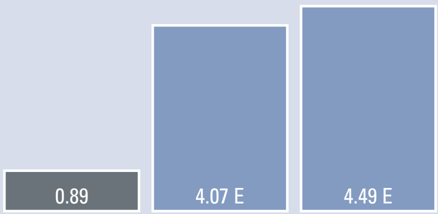
COCA-COLA CO

Sector: Consumer Non-Discretionary | Soft Drinks | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.88	**2.71%**	**0.53**	**$157.1 Billion**	**$61.29-$71.77**	**$69.18**

Consensus EPS Estimates[2] ($)

IBES consensus estimates are provided by Thomson Financial



INCOME STATEMENT

	Q4 FY11	Q4 FY10
Net Sales ($mil)	11,040.00	10,494.00
EBITDA ($mil)	2,747.00	2,532.00
EBIT ($mil)	2,216.00	2,023.00
Net Income ($mil)	1,654.00	5,771.00

BALANCE SHEET

	Q4 FY11	Q4 FY10
Cash & Equiv. ($mil)	14,035.00	11,337.00
Total Assets ($mil)	79,974.00	72,921.00
Total Debt ($mil)	28,568.00	23,417.00
Equity ($mil)	31,635.00	31,003.00

PROFITABILITY

	Q4 FY11	Q4 FY10
Gross Profit Margin	64.93%	66.50%
EBITDA Margin	24.88%	24.13%
Operating Margin	20.07%	19.28%
Sales Turnover	0.58	0.48
Return on Assets	10.72%	16.19%
Return on Equity	27.10%	38.09%

DEBT

	Q4 FY11	Q4 FY10
Current Ratio	1.05	1.17
Debt/Capital	0.47	0.43
Interest Expense	103.00	145.00
Interest Coverage	21.51	13.95

SHARE DATA

	Q4 FY11	Q4 FY10
Shares outstanding (mil)	2,263	2,292
Div / share	0.47	0.44
EPS	0.72	2.46
Book value / share	13.98	13.53
Institutional Own %	NA	NA
Avg Daily Volume	7,481,411	10,034,236

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS

COCA-COLA CO's gross profit margin for the fourth quarter of its fiscal year 2011 is essentially unchanged when compared to the same period a year ago. Even though sales increased, the net income has decreased. COCA-COLA CO has weak liquidity. Currently, the Quick Ratio is 0.78 which shows a lack of ability to cover short-term cash needs. The company's liquidity has decreased from the same period last year.

At the same time, stockholders' equity ("net worth") has remained virtually unchanged only increasing by 2.03% from the same quarter last year. Overall, the key liquidity measurements indicate that the company is in a position in which financial difficulties could develop in the future.

NYSE: **KO**

COCA-COLA CO

TheStreet Ratings

Sector: Consumer Non-Discretionary | Soft Drinks | Source: S&P

Annual Dividend Rate	Annual Dividend Yield	Beta	Market Capitalization	52-Week Range	Price as of 2/23/2012
$1.88	**2.71%**	**0.53**	**$157.1 Billion**	**$61.29-$71.77**	**$69.18**

RATINGS HISTORY

Our rating for COCA-COLA CO has not changed since 10/25/2005. As of 2/23/2012, the stock was trading at a price of $69.18 which is 3.6% below its 52-week high of $71.77 and 12.9% above its 52-week low of $61.29.

2 Year Chart

MOST RECENT RATINGS CHANGES

Date	Price	Action	From	To
2/23/10	$54.83	No Change	Buy	Buy

Price reflects the closing price as of the date listed, if available

RATINGS DEFINITIONS & DISTRIBUTION OF THESTREET.COM RATINGS

(as of 2/23/2012)

43.48% Buy - We believe that this stock has the opportunity to appreciate and produce a total return of more than 10% over the next 12 months.

30.77% Hold - We do not believe this stock offers conclusive evidence to warrant the purchase or sale of shares at this time and that its likelihood of positive total return is roughly in balance with the risk of loss.

25.74% Sell - We believe that this stock is likely to decline by more than 10% over the next 12 months, with the risk involved too great to compensate for any possible returns.

TheStreet.com Ratings, Inc.
262 Washington Street, 4th Floor
Boston, MA 02108
www.thestreet.com

Research Contact: 617-531-9717
Sales Contact: 866-321-8726

VALUATION

BUY. The current P/E ratio indicates a discount compared to an average of 20.63 for the Beverages industry and a premium compared to the S&P 500 average of 15.68. For additional comparison, its price-to-book ratio of 4.95 indicates a significant premium versus the S&P 500 average of 2.19 and a discount versus the industry average of 5.93. The price-to-sales ratio is well above the S&P 500 average, but well below the industry average. Upon assessment of these and other key valuation criteria, COCA-COLA CO proves to trade at a discount to investment alternatives within the industry.

Price/Earnings — 1 | 2 | **3** | 4 | 5 (premium … discount)

KO 18.75 — **Peers 20.63**

- Average. An average P/E ratio can signify an industry neutral price for a stock and an average growth expectation.
- KO is trading at a valuation on par with its peers.

Price/CashFlow — 1 | 2 | **3** | 4 | 5 (premium … discount)

KO 16.52 — **Peers 16.15**

- Average. The P/CF ratio, a stock's price divided by the company's cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
- KO is trading at a valuation on par to its peers.

Price/Projected Earnings — 1 | 2 | 3 | **4** | 5 (premium … discount)

KO 15.41 — **Peers 19.24**

- Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
- KO is trading at a discount to its peers.

Price to Earnings/Growth — 1 | 2 | 3 | 4 | **5** (premium … discount)

KO 1.82 — **Peers 2.87**

- Discount. The PEG ratio is the stock's P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
- KO trades at a significant discount to its peers.

Price/Book — 1 | 2 | 3 | **4** | 5 (premium … discount)

KO 4.95 — **Peers 5.93**

- Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
- KO is trading at a discount to its peers.

Earnings Growth — **1** | 2 | 3 | 4 | 5 (lower … higher)

KO -26.94 — **Peers 3.91**

- Lower. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
- However, KO is expected to significantly trail its peers on the basis of its earnings growth rate.

Price/Sales — 1 | 2 | 3 | **4** | 5 (premium … discount)

KO 3.36 — **Peers 4.24**

- Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
- KO is trading at a discount to its industry on this measurement.

Sales Growth — 1 | 2 | 3 | 4 | **5** (lower … higher)

KO 32.58 — **Peers 12.62**

- Higher. A sales growth rate that exceeds the industry implies that a company is gaining market share.
- KO has a sales growth rate that significantly exceeds its peers.