

STOCK MARKET PROJECT

1. HARLEY DAVIDSON / MICROSOFT

Stock price for one month period of time

Significance of price earnings ration

Dividend rate

Net income/ for last period reported

Economic outlook

*IN THE CASE OF ONLY HARLEY DAVIDSON, HOW DID THEY SOLVE

RADITOR PROBLEM

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Definition of price/earnings ratio

A company's share price divided by the amount of profits it makes for each share in a 12-month period. PE ratios are normally calculated on the base of all the profit made in the period, whether or not the profit is paid out to shareholders in that period. [1]

PE ratio, P/E ratio or PER for short, this is a company's share price divided by its earnings per share (EPS), expressed as a number or as a multiple of EPS (P/E multiple). The earnings used for the calculation can be either the amount most recently reported by the company, or an analyst's projection of future earnings (normally the current year or the year after that).

An important indication of comparative value - investors are normally better off buying a stock with a low P/E ratio than one with a high ratio, as they are getting more earnings for their money. [2]

The price/earnings ratio or p/e ratio links the stock/share price of a company with the earnings per share (profit for the year divided by number of outstanding shares). It reflects how many times earnings investors are ready to pay for a share. So if the share price is \$10 and earnings per share is \$1, investors are ready to pay 10 times earnings.

In an efficient market, the share price should reflect a firm's future value creation potential, greater value creation can indicate greater future dividends from the company. A higher p/e ratio should reflect greater expected future gains because of perceived growth opportunities and/or some competitive advantages and/or lesser risk, but at the same time it indicates that the share price is relatively more expensive.

During periods where markets are out of equilibrium, for example during a bubble, high p/e ratios may also reflect over-optimism and over-pricing. Conversely, a lower p/e ratio can reflect either poorer future opportunities or potentially a bargain if the market is over-pessimistic or if one believes the market is not taking into account potential restructuring or a takeover that would improve future prospects.

The P/E ratio, like other pricing ratios such as the price/book, price/sales or price/cash flows, is often used in valuing firms or takeover targets by finding the p/e ratio of a set of comparable companies and applying it to the target's current or forecasted earnings.

Unfortunately, there are a variety of p/e ratios used by investors so care must be taken when comparing p/e ratios across firms. While price is generally the most current share price observed on the market, it can sometimes be the price observed at the company's year-end.

Earnings can either be the:

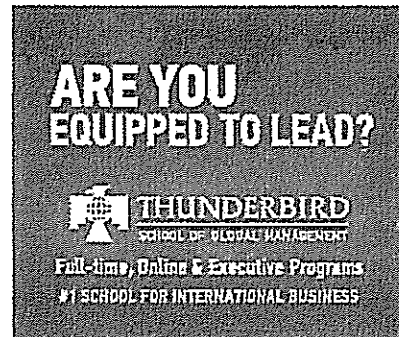
- historical earnings (the last reported yearly earnings) sometimes called the trailing p/e ratio;
- forecasted earnings generating what is often called the forward or prospective p/e ratio (financial analysts generally forecast at least next year's earnings);
- rolling earnings number - the sum of the last four quarterly earnings reported.

Example

Often cited when looking at long term trends, Robert Shiller of Yale University calculates a cyclically adjusted p/e ratio (CAPE) which is the ratio of stock prices to the moving average of the previous 10 years' earnings, deflated by the consumer price index. Co-head of the Accounting and Management Control Group, holder of the KPMG Financial Reporting co-chair, Essec Business School. [3]

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Value Investing World

Saturday, May 4, 2013

Graham and Dodd quote

From *Security Analysis*, 1940 edition.

"Undervaluations caused by neglect or prejudice may persist for an inconveniently long time, and the same applies to inflated prices caused by overenthusiasm or artificial stimulants. The particular danger to the analyst is that, because of such delay, new determining factors may supervene before the market price adjusts itself to the value as he found it. In other words, by the time the price finally does reflect the value, this value may have changed considerably and the facts and reasoning on which his decision was based may no longer be applicable.

The analyst must seek to guard himself against this danger as best he can: in part, by dealing with those situations preferably which are not subject to sudden change; in part, by favoring securities in which the popular interest is keen enough to promise a fairly swift response to value elements which he is the first to recognize; in part, by tempering his activities to the general financial situation—laying more emphasis on the discovery of undervalued securities when business and market conditions are on a fairly even keel, and proceeding with greater caution in times of abnormal stress and uncertainty.

The Relationship of Intrinsic Value to Market Price. The general question of the relation of intrinsic value to the market quotation may be made clearer by the following chart, which traces the various steps culminating in the market price. It will be evident from the chart that the influence of what we call analytical factors over the market price is both *partial* and *indirect*—partial, because it frequently competes with purely speculative factors which influence the price in the opposite direction; and indirect, because it acts through the intermediary of people's sentiments and decisions. In other words, the market is not a *weighing machine*, on which the value of each issue is recorded by an exact and impersonal mechanism, in accordance with its specific qualities. Rather should we say that the market is a *voting machine*, wherein countless individuals register choices which are the product partly of reason and partly of emotion."

Posted by Joe Koster at 5:04 PM

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