

White Paper on Stock Analysis
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When buying a stock in a company it represents a piece of ownership in that company. I'm often asked "do you think \$XX is a good price for XYZ company's stock?" I then ask how much is the entire company worth? (What is the Market Capitalization?) Most people don't know what the entire valuation is; however, market cap is the entire number of shares of stock outstanding multiplied by the price of the stock. Example of XYZ company at \$40 per share and 10,000,000 shares outstanding would give you a company with a Market Cap of \$400,000,000 valuation. Knowing that you can determine if you would buy the entire company (if you had the means) based on their earnings.

Several intelligent questions need to be asked prior to giving serious consideration to buying a stock. This will make it much easier to distinguish between investing and speculating. Ask yourself when buying a stock, who will pay more for this stock in 6 months, 1 year or 5 years from today's price and why? Also some simple fundamental calculations can be done. Let's use the following as an example. If you are buying a \$50 stock and the company will earn .60 cents per share this year and is projected to earn \$.85 cents the next year, and a \$1.00 the third year but beyond that is quite unknown, ask yourself if you would give someone a \$50 bill if they gave you \$.60 cents in return this year and promised \$.85 cents next year.....you get the idea. Probably not, yet people buy stocks based on the hope that someone will pay them more for it in the future without really understanding the return on the investment if they do not sell the stock.

Another good way to look at the above example is to simply divide the earnings by the stock price to determine the basic yield. $.60 / \$50 = .012$ or 1.2% Would your invest your money in something risky for 1.2% this year? I doubt it. But yet the hope is for higher returns in the future, I understand by even \$1.00 in several years is only a 2% yield. Now you may get a dividend from the company that has to be added in as well. The above calculations do scare many people straight in owning individual equities (stocks) and for good reason.

Let me be very clear on the difficulty of buying stock in a company with the hopes of the stock going up. It can sound so easy to achieve, yet to do it on a consistent basis is so difficult that most professionals cannot out perform the market over time. * Over 85% of Funds do not beat the SP500 index over a period of 3 years. I highly recommend having stop loss orders in place when owning stock as many factors can upset the market and the pricing of companies. The risks include the companies own ability or lack of to succeed in the market, the overall economy (market risk), and competition from other companies or the business risk. I hope this brief simple overview is helpful to you in your views, evaluations, and decisions on owning stock or partial ownership in a company.