

Profiting From P/E's



Mini Investment Class by the OKI Tri-State Chapter

*Courtesy Cincinnati Model Investment Club & Based on Original Presentation by Gretchen Hurt
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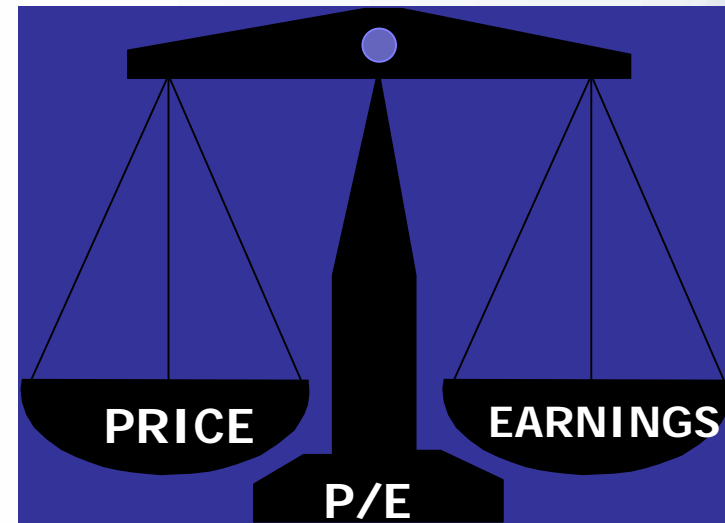
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OKI Tri-State Chapter

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What is a P/E?

- *Price to Earnings Ratio is called P/E.*
- *P/E stands for Price divided by Earnings.*
- *The price to earnings ratio, or P/E, is a number.*



P/E Terminology

- *P/E ratio –
\$100 Price/\$5 Earnings = 20 P/E*
- *20 times earnings*
- *Multiple of 20*
- *Valuation*

Price And Earnings

- *The price to earnings ratio (P/E) is a simple easy way to compare the current price of a stock with the current earnings.*
- *The price of the stock is changing constantly but the earnings only change four times a year.*

P/E Helps Determine Price to Pay

- People who learn how to buy those earnings when they are on sale will be the successful investors.*
- The P/E is the tool we use to help us determine if those earnings are on sale, are a fair price right now, or are over-valued.*

Why We look at P/E's

- Our goal is to buy stocks when they are on sale.*
- One tool we use to help us do this is the P/E.*

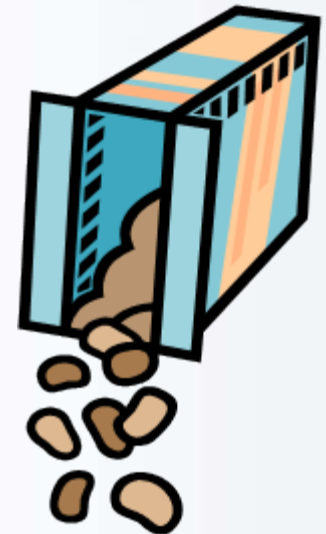


P/E Tells Us How Investors Value a Company's Stock

- Do you always buy the smallest box of cereal because it is cheapest?*

In groceries we look at dollars to purchase an ounce of a product

When buying stock in a company, we look at the number of dollars it takes to buy one dollar of earnings.



Price per Ounce
vs. Price per Box

Example

- If the price of a stock is \$30 a share and the company has earnings of \$1.50 they would have a P/E of 20.*



**30 divided by 1.50
equals 20.**

What Are Investors Willing to Pay

- The P/E ratio tells us what Investors are currently willing to pay for \$1 of the company's earnings.*
- In the previous example, investors are paying \$20 for every one dollar of earnings. (20 times earnings) (Multiple of 20).*

What Is A Good P/E?

- *Is 20 a good P/E?*
- *By itself the P/E ratio tells us very little.*
- *We need to compare that P/E with P/E's that investors have paid for the company's earnings in the past.*
- *And compare to other companies in the same industry.*

Compare P/E's

- To determine a "good" P/E for a company, compare today's P/E with the average P/E for that company.*
- When you are going to buy stock in a company you always want to know today's P/E and the average P/E so that you will know if you are paying too much or getting a bargain.*

For more ways to learn:

**Contact the OKI Chapter Board for a One Hour “Classes to Clubs”
(We Bring OKI Classes Directly to Your Club) Or
Attend One of our OKI Special Events or Edufests**



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