Investment Mini-Lessons

Callom B. Jones, V
Investment Adviser Representative

Mini-Lesson: P/E Ratios

Mathematically, a P/E (Price/Earnings) ratio is a simple calculation. Divide the EPS (Earnings Per Share, usually the TTM or Trailing Twelve Months EPS) into the market price of a given stock and you have the P/E ratio.

In and of itself, a P/E does not tell much about a stock, sector, or index. But, when compared to historical P/E's and to other comparable stocks/industries/indices the P/E can provide a measure of relative value. During bull markets, P/E's expand (get larger); they contract during bear markets.

One "rule of thumb" related to P/E's is that if a company's EPS growth rate expressed in % is equivalent to its P/E, the company, absent any evidence to the contrary, is said to be "fairly valued."

Trend Capital Management, LLC
9717 W 121 Terrace ▪ Overland Park, KS 66213 ▪ O (913) 897-7576 ▪ C (913) 568-9916
e tcm@trendcapitalmgmt.com ▪ www.trendcapitalmgmt.com