

STOCK RESEARCH

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Invest Ed[®]

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Oklahoma Securities Commission

June 2017



Peter Lynch's Fundamentals

- Know what you own.
- Don't try to predict the economy, interest rates, and the market.
- You have plenty of time.
- Avoid long shots.
- Buy a business any fool can manage because eventually one will.

Characteristics of Great Stocks



- Growing sales
- Growing earnings
- Macroeconomic trends in its favor
- Innovation

Growth vs. Value

- “Growth” stocks
 - have fast growing earnings.
 - exceed earnings expectations.
 - are usually in high-growth industries.
 - may be at a 52-week high.
- “Value” stocks tend to
 - be out of favor with Wall Street.
 - have strong business fundamentals.
 - sometimes be a turnaround play.
 - have a temporarily depressed price.
- Both types can be great investments.



Growth

- Top-line growth
- Sales
- Bottom-line growth
- Earnings
- What if a company is losing money?
or has never made any money?



Industry Analysis

- How does a firm rank with its rivals?
- How is the industry doing?
- What stage is the industry in its life cycle?



What are the Competitive Forces in the Industry?

- Threat of new entrants
- Threat of substitute products or services
- Bargaining power of customers
- Intensity of competitive rivalry



Financial Ratios



- Earnings Per Share

$$\text{EPS} = \frac{\text{Net Income}}{\text{\# of Shares}}$$



- Return on Equity

$$\text{ROE} = \frac{\text{Net Income}}{\text{Stockholder Equity}}$$

Class Activity

- You have been given a name of a publicly traded company.
- Is it profitable?
- What does it sell?
- What industry is it in?
What is the state of that industry?
- Can you name one or two competitors?
- Does the company pay dividends?

