

# 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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 **BETTER INVESTING**<sup>™</sup>  
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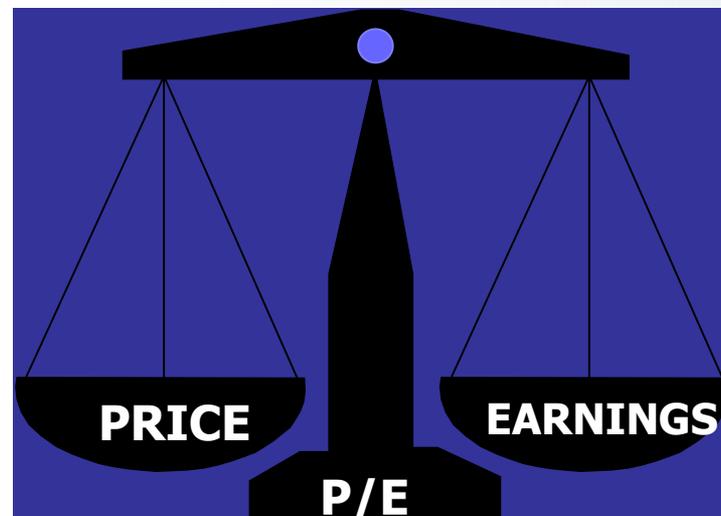
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# What is a P/E?

- **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.**

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