ANALYZING COMPANIES AND PICKING YOUR OWN STOCKS: STUDENT HANDOUT

There are many things people examine in order to determine whether or not an investment may be good. When analyzing stocks, you might want to start by asking what companies you know that make good products that people want or need to use. It is also helpful to be able to understand some basic financial information. This lesson will give you a starting point for a couple of basics that will help you pick better stocks.

Along with your teacher, review the concept of P/E (price/earnings) to growth rate in order to gain some knowledge about what a stock investment in a company is worth. Once done, complete the exercise below. You can use your analysis to make investments in a simulated portfolio game.

P/E vs. Growth:
P stands for price, which means the amount of money you will spend to invest or buy a share of stock. The share price of a stock is not a way to tell whether a stock is expensive or inexpensive. This is because each company actually sells a different amount of shares. Therefore, you need to know how much money a company is earning in profit in order to assess the cost.

E stands for earnings. You might know this as profit. Every company produces a financial statement called an income statement. It shows how much money the company made during a certain time period. On the top line is revenue. That is all the money the company made during that specific period of time. Expenses such as the labor and materials it cost to produce the goods or services, the phone bill and taxes are subtracted. The bottom line shows the earnings, which is just revenues minus expenses. That is the profit. So the E really stands for how much profit each share of stock is earning. In finance, that is called earnings per share.

So, let's check that you know what you're talking about.

- Would you rather pay more or less for a share of stock? Of course, lower price (P) is better!
- Would you rather your investment make more profit or less? Of course, higher earnings (E) is better!

What is a better P/E ratio, 20 or 1?

Looks like you've got it. But wait: Do you always buy the cheaper product? A lower P/E number may indicate good value, but it is also nice to know if the revenues and earnings are growing. If a company has sales growth of 75 percent versus the previous year rather than a competitor only growing by 5 percent, it may be worth paying for a higher P/E. It's your call. Now let's try.

Go to www.yahoo.com. Click on the link for Finance. Using the box next to the button that says "Get Quotes," enter the name of a company your class listed on the board that you are interested in researching until you find the ticker symbol for that company. Click on the link for the company.

1. What are the ticker symbols for the companies? What is the price of one share of stock? (This is the number next to the heading "Last Trade.") Also, on the same page, you can find the P/E ratio and what the dividend yield percentage is if your company pays dividends.

Company	Ticker Symbol	Share Price	P/E	Dividend Percentage
For example:	Apple: AAPL			

Note: Some may have N/A for P/E. This means the company is not currently making a profit. These companies may be valuable if investors think they will make money in the future even though they are not doing so currently.

2. Let's compare your company to a competitor. Click on the link to the left titled "Competitors." You can find the P/E for your company and the quarterly revenue growth listed for both the company you know and a competitor.

Name of Company: P/E: Quarterly Rev Growth:

Name of Competitor: P/E: Quarterly Rev Growth:

3. Which company would make a better investment and why? Good reasons include its financial information as well as your knowledge about its products.

4. Click on the link to the left titled "Key Statistics." Scroll down until you find "Total Debt/Equity." A number less than 1 would be really good. N/A or zero is even better. When times are bad, the less debt you have, the safer the investment. Lower is better! What is the number for your company?

You now have some basic financial-analysis skills to begin investing on your own. Based on this information, you could begin trading in a simulated portfolio. You should invest in at least five to 10 companies of different sizes and from different industries when developing a simulated portfolio that has some diversity. Industries include health care, energy, food, retail and technology.

You can find a list of industries and top-performing companies within the industries by following this link: http://biz.yahoo.com/ic/.