Scarlet Oak Financial Services
Faye Sykes, CLTC, NSSA
CEO & Independent Advisor
1117 Perimeter Center West
Suite W-212
Atlanta, GA 30338
800-871-1219
fsykes@scarletoakfs.com
www.scarletoakfs.com

Analyzing Stocks

Analyzing Stocks

Introduction

Investors in stocks need to know what the stock is really worth, how risky the stock is, and when to buy, sell, or hold. There are many ways investors can analyze stocks to determine this information. There is no single way that works for all investors. In fact, many investors use a combination of methods to analyze stocks.

Though there are many investment evaluation methods that can be applied to analysis, we will concentrate on the two most basic ways--fundamental analysis and technical analysis. Fundamental analysis is concerned with evaluating the strength of a company's finances and operations. Technical analysis reviews past stock price action in an effort to predict future stock price movements.

Fundamental analysis

Fundamental analysis involves an in-depth review of the issuing company, including its product(s) or services, current financial condition, operating efficiency, and management performance. Much of this information can be ascertained by reviewing the company's annual reports and 10K or 10Q Forms filed with the SEC.

An investor can measure a company's value by calculating certain financial ratios and comparing them to companies in similar industries. The following most common financial ratios and factors are discussed below.

Earnings per share (EPS)

Earnings per share (EPS) represents the company's after-tax income divided by the number of shares. An increase in this figure over time indicates the company is growing.

Price/earnings (P/E) ratio

The price/earnings (P/E) ratio of a company measures the price of its stock in relation to its EPS. Theoretically, this ratio tells investors how much the market is willing to pay for stock per dollar of earnings. Generally, higher P/E ratios mean that investors are willing to pay more because they anticipate earnings to grow rapidly. A company's P/E ratio needs to be compared to companies in similar industries to be useful.

Current ratio

Current ratio is calculated by dividing the company's assets by its liabilities, and indicates the company's ability to pay its debts. A higher ratio indicates the company has a stronger ability to pay its liabilities.

Debt-to-equity ratio

Debt-to-equity ratio measures the amount of debt a company has in relation to its equity. A high debt-to-equity ratio indicates that the company is leveraged and may be more vulnerable to downturns in the economy.

Technical analysis

Technical analysis, sometimes called charting because of its reliance on charts, attempts to predict future stock price movements by analyzing patterns in price changes and volume over time. It is less concerned with a company's financials than with investor interest or lack of interest and the patterns formed by changes in its price. Key indicators used by technical analysts include 50- and 200-day moving averages, which are plotted as lines on a chart; a decisive move above or below such a moving average is believed to indicate whether the stock's current price trend will continue and/or whether the current price represents a buying or selling opportunity. Also considered significant is the trading volume in a particular stock--an indicator of investor interest.

To schedule an appointment with Faye Sykes, click here .

Broadridge Investor Communication Solutions, Inc. prepared this material for use by Scarlet Oak Financial Services.

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on individual circumstances. Scarlet Oak Financial Services provide these materials for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Scarlet Oak Financial Services outgoing and incoming e-mails are electronically archived and subject to review and/or disclosure to someone other than the recipient. We cannot accept requests for securities transactions or other similar instructions through e-mail. We cannot ensure the security of information e-mailed over the Internet, so you should be careful when transmitting confidential information such as account numbers and security holdings. If the reader of this message is not the intended recipient or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination distribution or coping of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by replying to this message and deleting it from your computer. Advisory Services offered through Capital Asset Advisory Services, LLC., a Registered Investment Advisor.

Scarlet Oak Financial Services
Faye Sykes, CLTC, NSSA
CEO & Independent Advisor
1117 Perimeter Center West
Suite W-212
Atlanta, GA 30338
800-871-1219
fsykes@scarletoakfs.com
www.scarletoakfs.com