

## Fundamental Analysis

- Technique that attempts to define a security's value using underlying factors about the actual business and its future prospects
- Assumptions
  - Price on the market does not reflect a stock's "real" value
  - In the long run, the stock market will reflect the fundamentals

## Qualitative/Quantitative Fundamentals

- Qualitative
  - Analysis of unquantifiable information, can't be ignored
  - Examples
    - Business Model
    - Competitive Advantage
    - Management Quality
    - Industry
- Quantitative
  - Analysis of quantifiable information

## Financial Statements

- Income Statement
- Balance Sheet
- Statement of Cash Flows
  - Operating: How much cash comes from sales of the company's goods and services, less the amount of cash needed to make and sell those goods and services
  - Investing: Shows the amount spent on capital expenditures (Property, Equipment, Technology) and acquisitions of new companies
  - Financing: Cash inflow through selling stocks, bonds, and borrowing from banks. Cash outflow can be from dividend payments and stock repurchases

## Ratio Analysis

- Categories

Category	Description
Activity Ratios	Measures how efficiently a company performs day to day tasks, such as the collection of receivables and management of inventory
Liquidity Ratios	Measures the company's ability to meet its short term obligations
Solvency Ratios	Measures a company's ability to meet long term debt obligations. Subsets of these ratios are known as "leverage" and "long term debt" ratios
Profitability Ratios	Measures the company's ability to generate profitable sales from its resources (assets)
Valuation Ratios	Measures the quantity of an asset or flow associated with ownership of a specified claim
Coverage Ratios	Measures a company's ability to pay its liabilities

## Common Valuation Ratios

- Price-To-Book Ratio
  - The P/B ratio measures the market's valuation of a company relative to its book value
  - How to calculate book value?
- Price-To-Earnings Ratio
  - The price-earnings ratio (P/E ratio) relates a company's share price to its earnings per share
  - Two kinds of P/E ratios - forward and trailing P/E
  - Impact of Corporate Buybacks on P/E Ratio?
- Price-To-Sales Ratio
  - Valuation ratio that compares a company's stock price to its revenues
  - Displays the value that is placed on each dollar of a company's revenues/sales

## Activity Ratios

- AP Days Outstanding (Days Payable Outstanding)
  - Average time company takes in paying bills and invoices.
  - The higher the DPO, the longer time period the company can utilize cash for productive operations.
- AR Days Outstanding (Days Sales Outstanding)
  - Average number of days that receivables are outstanding before collection
- Days Inventory Outstanding
  - Average number of days that inventory is held before being sold.
  - How will poor sales impact days inventory outstanding?

## Solvency Ratios

- Current Ratio
  - Portrays ability to pay current liability obligations with proceeds of current assets being liquidated.
  - Large amounts of inventory can skew this ratio
- Debt-To-Equity Ratio
  - Measures the level to which a company is financing operations through debt vs shareholder equity
  - Larger D/E ratios will indicate greater leverage; on average, these companies hold a higher risk to shareholders

## Efficiency/Profitability Ratios

- Return-on-Assets
  - How profitable a company is relative to total assets
  - How efficient is a company at generating earnings through its assets?
- Return-on-Equity
  - Measuring the effectiveness of profitability in relationship with company's equity
- Return-on-Investment-Capital
  - Effectiveness of profitability relative to invested capital through debtholders and shareholders