Investing notes

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1 Analyzing a stock from Yahoo Finance

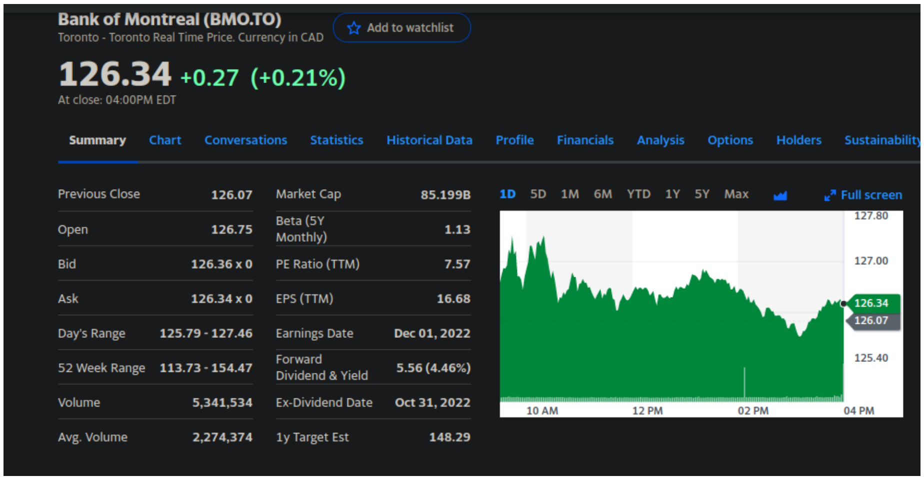

Figure 1: View of $BMO.TO in Yahoo Finance

1.1 Analyzing the Summary Tab

- **Previous Close:** represents the last closing price reported of a security during a given time period; A security's previous close is an important value that is used by investors to chart gap patterns which can show substantial changes from a previous close to a new open.
- **Open:** AKA the opening price; this is the value that a security is initially valued when the exchange opens for the day.
- **Bid:** AKA the bidding price; A bid is an offer made by an investor, trader, or dealer in an effort to buy an asset or compete for a contract; The spread between the bid and asking price is a reliable indicator of supply & demand for the security.
- **Ask:** AKA asking price; The price at which someone is willing to sell a security for.
- **Range:** Refers to the difference between the highest & lowest prices a security or index ranges over an interval of time.
- **Volume:** Trading volume is a measure of how much a given asset has been traded over a period of time. For stocks, volume is measured in the number of shares traded, for futures & options, volume is based on how many contracts have changed hands. Volume can indicate market strength, as rising markets on increasing volume are typically viewed as strong and healthy.

- **Avg. Volume:**
- **Market Cap:** Market capitalization is calculated by multiplying the number of shares outstanding by the current price of a single share (i.e. A company with 50 mil shares & a stock price $100 per share would have a market cap of $5 bil). Market cap is a metric based on stock price. Market capitalization is used to help define the value of a company when analyzing potential trade oppo
- **Beta (5Y monthly):** Beta measures how volatile a stock is in relation to the broader stock market over the last 5 years, using one data point per month. A stock with a high beta indicates it's more volatile than the overall market and can react with dramatic share-price changes amid market swings.
  - A beta of one means that an investment is as volative as the rest of the market. If the security has a beta of two, it means that the stock is twice as volatile as the market.
  - Low risk traders often avoid investing in high-beta stocks.
  - Beta relies on past information and so doesn't help describe the fundamentals of the security, however a beta may be a strong factor in quantifying risk for frequent traders
- **Price-to-Earnings (P/E) Ratio:** The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.
  - The ratio represents the factor which traders are willing to buy the security compard to the profit gained by the company with the sale of the security.
  - A high (P/E) ratio could mean that a company's stock is overvalued OR that investors are expecting high growth rates in the future.
  - According to investopedia, a P/E ratio holds the most value to an analyst when compared against similar companies in the same industry or for a single company across a period of time.
  - **NOTE:** Valuation ratios compare the company's market value with some financial aspect of its performance - earnings, sales, book value, cash flow, and so forth; the ratio-based approach is the most commonly used method for valuing stocks since ratios are easy to calculate and readily available. The downside of making sense of valuatio ratios is that they require a quite a bit of context (i.e. A P/E ratio of 15 does not mean much unless you know the P/E of the market as a whole, the P/E's of the company's main competitors, the company's historical P/E's, and similar information.