# Intermediate Stocks

# What Moves Stock Prices

- **Company fundamentals**: Revenue, earnings growth, and profitability influence stock value.
  - Strong earnings reports can raise prices; weak results often cause drops.
- **Market sentiment**: News headlines, investor confidence, and hype move prices short-term.
  - Example: Positive product news boosts investor demand.
- **Economic indicators**: Interest rates, inflation, and employment data affect markets.
  - Rising rates can lower stock prices because borrowing costs increase.
- **Takeaway**: Prices reflect both company performance and investor emotions.

# Key Stock Metrics

- Earnings Per Share (EPS):
  - Formula: Net Income ÷ Shares Outstanding
  - Higher EPS = more profitable company.
- Price-to-Earnings (P/E) Ratio:
  - Shows how much investors pay per $1 of earnings.
  - High P/E = growth expectations; Low P/E = possible undervaluation.
- Dividend Yield:
  - Dividend ÷ Stock Price = % return in cash payouts.
  - Useful for income-focused investors.
- Price-to-Book (P/B) Ratio:
  - Compares stock price to company's book value.
  - A P/B under 1 may signal undervaluation.
- Return on Equity (ROE):
  - Measures how effectively a company uses investor money to generate profit.
- **Takeaway**: These metrics help compare companies beyond stock price alone.

# Evaluating Companies

- **Growth trends**: Look for consistent increases in revenue and profit over time.
- **Profit margins**: Higher margins show strong cost control and product demand.
- **Debt management**: Too much debt can limit flexibility and increase risk.
- **Cash flow**: Positive, steady cash flow means healthy operations.
- **Competitive advantage (“moat”)**: Unique products, brand strength, or technology that keep competitors out.
- **Management quality**: Reliable leadership drives long-term performance.
- **Takeaway**: A good stock represents a healthy, well-managed, and sustainable business.

# Stock Valuation Basics

- Market value vs intrinsic value:
  - Market value = current price; intrinsic value = what it should be worth.
- Common valuation tools:
  - P/E Ratio: Compares price to earnings.
  - PEG Ratio: P/E divided by growth rate — useful for growth stocks.
  - Discounted Cash Flow (conceptual): Values stock based on expected future cash.
- Reality check: No method is perfect — valuation is part art, part science.
- **Takeaway**: The goal isn't to find the "perfect" value but to recognize when a stock seems overpriced or underpriced.

# Risk and Diversification

- **Diversification**: Spread investments across industries and asset types to reduce risk.
  - Example: If tech stocks fall, healthcare or energy might offset losses.
- **Volatility**: Measures how much prices fluctuate; higher volatility = higher risk.
- **Correlation**: Avoid investing in stocks that move the same way at the same time.
- **Position sizing**: Don’t let one stock dominate your portfolio.
- **Takeaway**: Diversification protects your portfolio from unexpected downturns.

# Smarter Decision-Making

- Avoid emotional investing:
  - Don’t buy from fear of missing out (FOMO) or sell out of panic.
- Ignore market noise:
  - Focus on data and company performance, not daily price swings.
- Set goals and stick to them:
  - Define your investment time horizon (short-, medium-, or long-term).
- Rebalance regularly:
  - Adjust holdings yearly or when one sector grows too large.
- Learn continuously:
  - Track results, study your wins and losses, and refine your approach.
- **Takeaway**: Consistency and discipline beat reacting to every market move.

# Learning Assessment Question 1

What primarily drives long-term stock price growth?

- Daily market news
- Company fundamentals like earnings and revenue growth
- Investor emotions
- Government policies

# Question 2

What does a high P/E ratio usually suggest?

- The company is undervalued
- The company is highly profitable
- Investors expect strong future growth
- The company is losing money

# Question 3

Why is diversification important in investing?

- It guarantees profits
- It minimizes risk by spreading investments across sectors
- It reduces the number of stocks to track
- It increases short-term returns

# Question 4

What does Return on Equity (ROE) measure?

- The company’s total revenue
- How efficiently a company uses shareholder money to generate profit
- The company’s market share
- The company’s dividend history

# Question 5

Which of the following best describes intrinsic value?

- The price investors are currently paying for a stock
- The estimated true worth of a company based on financials and potential
- The highest price a stock has ever reached
- The value after dividends are paid