The P/E Ratio

1. The P/E ratio is an example of a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ratio. It represents how much investors are willing to pay per dollar of earnings.
2. The higher the P/E ratio, the \_\_\_\_\_\_\_ investors are willing to pay for a company’s earnings.
3. How is the P/E ratio calculated? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. If we say that a stock trades 25 times earnings, it means that investors are paying $\_\_\_\_ for every $\_\_\_\_ of earnings.
5. An example of a low P/E is around \_\_\_\_\_\_ . An example of a high P/E is \_\_\_\_\_\_.
6. How is earnings per share (or profit per share) calculated?
7. List three different finance websites that post the P/E ratio: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
8. Most websites show the \_\_\_\_\_\_\_\_\_\_ P/E. The P is always the current stock price. The E represents the earnings from the last 12 months.
9. A \_\_\_\_\_\_\_\_\_\_\_\_\_ P/E is the current price divided by the forecasted (or predicted) next 12 months of earnings.
10. What is one example of a time when analyzing the P/E ratio does not make sense?

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1. Why would an investor be willing to pay a premium, or in other words, a high P/E, for a company? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. True or False? The P/E alone tells investors if a stock is a good or bad investment.
3. A high P/E indicates that the market collectively is very \_\_\_\_\_\_\_\_\_\_\_\_\_\_ about a company’s future. A low P/E indicates that the market collectively is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about a company’s future.
4. What could cause the investor to lose money even if the company grows?

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1. During bull markets, P/Es \_\_\_\_\_\_\_\_\_\_\_\_\_ as investors become more optimistic.
2. During bear markets, P/Es \_\_\_\_\_\_\_\_\_\_\_\_ as investors become more pessimistic.
3. Remember, the P/E ratio is just an \_\_\_\_\_\_\_\_\_\_\_\_. The market’s aggregate \_\_\_\_\_\_\_\_\_\_\_\_ about the future of a stock.