The PEG Ratio

1. What is the PEG ratio? It is a **valuation** ratio that measures the **price** you pay for earnings, relative to the **expected** growth rate.
2. How is the PEG calculated? **P/E ratio divided by the one-year expected growth rate.**
3. The PEG ratio is a tool used by some investors to control **risk**. The concept with the PEG ratio is that you do not want to **overpay** for a security.
4. The higher the number, the **more** you paying for growth. The lower the number the **less/cheaper** you are paying for growth. The **lower** the PEG ratio, the better.
5. A PEG ratio between 1 and 2 is a **fairly** valued security. A PEG below 1 is considered **cheap**. Anything over 2 is considered **expensive**. If you pay over a PEG ratio of 2, you are **overpaying** for the growth of a company.
6. Please keep in mind that you are using **expected** growth. This is a forecasted or predicted growth rate. It may or may not occur. This number is based on Wall Street analyst collective forecast of earnings growth next year.
7. Where can you find the one-year growth rate on Yahoo Finance? **On the Summary page of a company, select “Analysts.” On the analyst page go to the bottom, find “Growth Estimates” and you can find “Next Year” in the far right column.**
8. **True** or False? It is best to calculate the PEG ratio yourself.
9. The PEG ratio is sometimes provided by financial websites. However, only use it if it is a **one-year** PEG, that is it uses the one-year expected growth rate. Most PEG ratios on the web use a 5 year growth rate which is quite **unreliable**.
10. Give an example of a company that the PEG ratio cannot be used to analyze : ­­

**Examples include companies with negative P/Es or negative growth rates**

1. It’s important to remember that the PEG ratio is just another **tool** that can be used in the investment analysis process.