

RELATIVE VALUE

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Disclaimer

- All stock References are meant to be used for EDUCATIONAL purpose!
- No recommendation for purchase or sale is intended or implied.
- Please perform your own due diligence.

Relative Value

- Define Relative Value (RV) & Proj Relative Value
- Review how above are calculated
- Importance of Relative Value & Proj Relative Value

RELATIVE VALUE

▣ RELATIVE VALUE (RV)=
Measure of risk

Relative Value

Relative Value = Signature PE compared with the current PE

Signature PE = Average PE

Signature PE

- The “normal” relationship between the company’s earnings & it’s stock price
- Signature PE = Average PE

Relative Value

Relative Value = Current PE divided by Signature PE

Relative Value

- **Relative Value** = 85%-110% (In General about 100%)

Relative Value

- Low RV = ?people know something you don't ?
- RV = below 85%: move to another company

Relative Value

- ▣ Relative Value (RV) more than 110% = ***may*** be overvalued
- ▣ ***Others*** agree that it is high quality

Projected Relative Value

- ▣ Proj RV = next 12 mo. earnings / by the signature PE (Toolkit does this calculation for us)

Projected Relative Value

- ▣ Proj RV lower numbers than the RV (future PE using a higher earnings)
- ▣ Usually don't buy stock with Proj RV above 100% or below 80%

RV & Proj RV

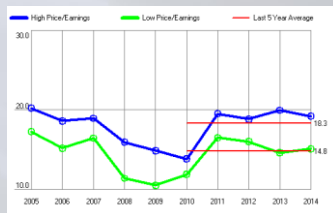
- RV & Proj RV = evaluate these with care as number of things affect the average PE:
 - Interest rates, inflation
 - Competition, trends in the industry
- MUST NOT fail to evaluate the actual PEs that make up the measure of RV!!

SSG = PEs

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

		CURRENT PRICE (PE) 99.79 (17.6)		52-WEEK HIGH (PE) 109.49 (19.3)		52-WEEK LOW (PE) 95.10 (16.7)		
Fiscal Year	High Price	Low Price	EPS	High PE	Low PE	Dividend	% Payout	% High Yield
1 2010	66.2	56.9	4.78	13.8	11.9	2.110	44.1	3.7
2 2011	68.1	57.5	3.49	19.5	16.5	2.250	64.6	3.9
3 2012	72.7	61.8	3.86	18.8	16.0	2.400	62.2	3.9
4 2013	96.0	70.3	4.81	20.0	14.6	2.590	53.9	3.7
5 2014	109.5	86.1	5.70	19.2	15.1	2.760	48.4	3.2
6 AVERAGE		66.2		18.3	14.8		54.6	
AVERAGE PE RATIO	16.6		PROJECTED PE RATIO	16.9		T/M EPS		5.68
CURRENT PE RATIO	17.6		PE RATIO	4.2		F/M EPS		5.91
RELATIVE VALUE	106.3%		PROJ. RELATIVE VALUE	102.1%		Avg T/M + F/M EPS		5.79

PEs = Graph



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References

- **Stock Talk**
Ellis Traub (2010)
- **Stock Selection Handbook**
BI Educational Series (2003)
- **The Five Rules for Successful Stock Investing**
Pat Dorsey (2004)
- **Toolkit 6**
I-Club (2011)

Relative Value

- Mr. Buffet was quoted as once saying, "Buy into a business that's doing so well an idiot could run it, because sooner or later, one will."

Relative Value



Relative Value

