

## **Module 4 – Chapter 1 – Fundamental Analysis Basics**

Fundamental analysis is a method of evaluating the intrinsic value of an asset by examining its underlying economic and financial factors. This approach is commonly used by investors to make informed decisions about stocks, bonds, and other securities.

Here are some basic concepts to understand when it comes to fundamental analysis:

### **1. Economic factors**

Economic conditions can have a major impact on a company's performance. For example, a company that relies on consumer spending may be affected by changes in unemployment or disposable income. Investors can use economic indicators, such as GDP, inflation, and employment data, to get a sense of the overall health of the economy.

### **2. Financial statement**

Financial statements provide information about a company's financial position, including its assets, liabilities, revenues, and expenses. The balance sheet shows a company's assets and liabilities at a specific point in time, while the income statement shows a company's revenues and expenses over a period of time, such as a quarter or a year. The cash flow statement shows the inflow and outflow of cash for a company.

### **3. Earnings**

An earnings, or net income, is a measure of a company's profitability. It is calculated by subtracting a company's expenses from its revenues. Earnings are important because they can impact a company's stock price and dividends. For example, if a company's earnings are higher than expected, its stock price may increase.

### **4. Valuation ratios**

Valuation ratios are used to compare a company's stock price to its earnings or other financial metrics. The price-to-earnings (P/E) ratio is a common valuation ratio that compares a company's stock price to its earnings per share (EPS). A high P/E ratio may indicate that a company's stock is overvalued, while a low P/E ratio may indicate that it is undervalued. Other common valuation ratios include the price-to-book (P/B) ratio, which compares a company's stock price to its book value, and the price-to-sales (P/S) ratio, which compares a company's stock price to its sales per share.

### **5. Industry analysis**

Investors may also consider the overall health and prospects of an industry when evaluating a company. This can involve looking at factors such as supply and demand, competition, and regulatory environment. For example, an investor may consider the growth potential of an industry, as well as the competitive landscape and any potential challenges or risks.

By considering these and other factors, investors can use fundamental analysis to make informed decisions about whether to buy, sell, or hold a particular security. Fundamental analysis can be a useful tool for long-term investors, as it helps to identify companies with strong financial fundamentals that may be well positioned for growth.



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