20 07 2009 Anche i fondamentali possono essere manipolati

Fortune 500 companies can make their stocks seem attractive

The price to earnings ratio and earnings per share for the future can be easily manipulated

Fortune 500 companies can make their stocks seem attractive by making them appear to be undervalued stocks

The price to earnings ratio can be an essential part of the formula that investors use to determine undervalued stocks that are a good investment. This ratio is found by dividing the price per share of the stock by the earnings per share that the stock has. This allows you to examine the stock and determine what you will pay today for the expected future earnings of the stock. The price to earnings ratio may also be called the earnings multiple by some advisers and analysts. When the current ratio is calculated, the earnings per share for the last four quarters is usually the minimum amount needed for accurate results. Another part of this equation is the future performance of the stock, which can only be guessed at since the future is not here yet. In this case, investors must use the projected estimates of any future earnings per share, and this also usually requires at least four quarters, only going forward instead of back.

The problem with this equation is that the future estimates of the earnings per share will come from the management of the company, which sets up a conflict of interest. The future ratio will be called the forward price to earnings ratio, or the projected P/E ratio. As soon as the estimates from the company management are added, you must be careful to remember that these estimates can be skewed by the company management to make the company stock more attractive to investors and draw in capital. The projected ratio is an important tool, but one that must not be given the full weight of unbiased facts. When used along with other tools, this ratio can be an important factor, but it must also be backed up by other facts and evidence. It is possible for companies, especially Fortune 500 companies that may be very large and extremely complex with regard to accounting, to manipulate their price to earnings ratio so that it appears more attractive.

There is a common form of manipulation used by companies called the “big bath,” and this can cause these stocks to seem undervalued to investors. This happens when the company incurs a big loss to their bottom line. The big bath is a recognized accounting method that allows companies to manipulate earnings and predicted future earnings. This method involves the company taking the complete loss in one single period, instead of spreading these losses over three or four periods or years. This will cause the earnings per share to drop significantly for the time period involved, due to the large losses posted. The intention of the company is to foster the idea among investors that this charge is a once only deal, and that the stock will rise considerably after the loss has been absorbed.

This will cause investors to see the stock as one of the undervalued stocks, or as an attractive investment. Due to this, investors will buy the stock in large numbers of shares, and this will cause the demand and price for the stock to jump up. This price is manipulated, and can lead to bubbles that will eventually bust. Be wary of stocks and companies that have a projected price to earnings ratio of one hundred or more, because these companies are either very in demand or are being manipulated by management. The earning per share and other components of this equation are all important. All factors must be taken into consideration together for you to evaluate the stock thoroughly and accurately. Future 500 companies are well versed in manipulating financial records to make the stock they offer appear more attractive and investors need to use caution when dealing with estimates or projections from that type of company management.