Investors: Use A Company's Return On Equity To Help You Pick Stocks

Description

As stock investors, we all want to make money, right?

While there are never any guarantees in the stock market, doing your due diligence in researching the stocks you want to invest in will help you avoid losses. You should never buy a stock simply because someone tells you it's "hot". There are many factors to consider when researching a stock.

Today, we will look at one of these factors — a company's return on equity (ROE). Then, we'll examine the ROE for a few popular stocks.

What does ROE mean?

Return on equity is a simple calculation. You divide a company's earnings by its total equity (net assets). Earnings means a company's reported earnings per share. This calculation gives you a percentage, and this percentage then gives a good indication if a company is using its equity efficiently. Basically, it tells you how much profit a company has made with the amount of money shareholders have invested. Most generally, the higher an ROE, the better.

You don't normally need to do any of this math yourself. While you can find earnings and equity on a company's financial statements, you can generally see these numbers and a company's ROE on any financial site that follows the markets, such as Google Finance. Therefore, just go to one of these sites and look for the ROE.

What is a good ROE number?

Now you know how to find a stock's ROE, but how do you know what a good one looks like? It depends on who you ask. Some analysts like to see an ROE of at least 10%. Others prefer a number in the 15-20% range. It's also important to consider what industry your stock is in. Certain industries tend to fall into different ranges. If you want to know if your possible stock boasts a good ROE, compare it to its closest competitors. If the stock's ROE is comparable or higher than its competitors, you are likely looking at a good number.

Let's look at a few popular stocks to see what their ROEs look like.

Company	**Return on Equity**
Toronto Dominion Bank (TSX:TD)	14.14%
Canadian Imperial Bank of Commerce (TSX:CM)	21.09%
Aurora Cannabis Inc. (TSX:ACB)	-18.05%
Harvest One Cannabis Inc. (TSX:HVST)	164.47%
Metro, Inc. (TSX:MRU)	21.45%
Loblaw Companies Ltd (TSX:L)	9.50%

Our chart lists six companies, two each from different industries. Looking at our financial stocks, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) has a better ROE than **Toronto Dominion Bank** (TSX:TD)(NYSE:TD). Therefore, CIBC is currently better at taking investor money and turning it into profit.

For our cannabis stocks, **Harvest One Cannabis Inc.** (TSX:HVST) is far superior to **Aurora Cannabis Inc.** (TSX:ACB), which is in negative territory (something you don't want to see). The cannabis industry has a super large range when it comes to ROEs, whereas more established industries tend to have numbers that are much closer together.

For our grocery stocks, **Metro, Inc.** (TSX:MRU) is more than doubling the number of **Loblaw Companies Ltd.** (TSX:L)

If you were to only look at the ROE, then CIBC, Harvest One Cannabis and Metro are the better buys. But is ROE the only number you should look at? Nope.

There are many factors to consider when looking for stocks. You need to consider other aspects, such as valuation, profit margins and debt, just to name a few. A good ROE is not the be all and end all for your stock picks.

Investor Takeaway

You will need many numbers to see a complete picture of your potential stock buy. Return on equity is simply one of the numbers you want to consider. The more positive numbers you find for your stock, the better a buy it will likely be.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:ACB (Aurora Cannabis)
3. TSX:L (Loblaw Companies Limited)
4. TSX:MRU (Metro Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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