



## Forget P/E or Any Other Ratio: Investors Should Look at This Before Buying a Stock

### Description

Using multiples can be a very good way to ensure you don't overpay for an investment, but the most important thing for investors to look at isn't a number at all.

Whether a company is a good long-term investment comes down to qualitative factors rather than quantitative factors. While the current [valuation](#) might tell you if the stock is a good deal today, that has no bearing on its long-term potential.

A stock that's at its 52-week high today or trading at a high multiple means little if next quarter it has a record earnings performance and its multiples decrease and the share price soars to new heights.

### All about the moat

The company's ability to keep a competitive advantage, or moat, may be the most important item for investors to examine. However, it's impossible to quantify, and it's a complex answer that involves analyzing the company's operations, that of its competitors, and the industry as a whole. Only then can investors gain an accurate depiction of where the company is in relation to its peers.

A company with little or no competitive advantage will have a harder time protecting market share that it has compared to one with a lot of moat.

Take **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) for example. There's no question that the company is a big success today and that it's made many investors rich, but over the long term, there might be a bit more question marks about its future.

The biggest concern is that the products and services it offers customers don't give the company a distinct advantage in the marketplace.

There's nothing to stop a larger company to swoop in with more resources and develop a platform to compete with Shopify, which would then come down to other factors such as price, integration with

other services, customer service, and many others as to which company would come out on top.

Shopify isn't the only way that merchants can sell their products online and there is some growing [competition](#) out there, even from big tech companies. The advantage that Shopify has today is its brand along with so many users on its platform.

However, that's not a strong advantage — and one that could disintegrate over time, especially with a formidable competitor offering customers viable alternatives.

## Bottom line

To make the best decision possible, investors should consider many factors, not just the current price point. Price can change every second, but the company's business model will not, and that's key to understanding how well it is positioned for success in the industry.

As tempting as it may be to find shortcuts and rely on charts or ratios to do your analysis for you, that could become a dangerous way to approach investing.

If the stock price falls, investors could be left owning a failing stock that they didn't really like in the first place and that they only invested in because it was cheap.

While numbers can help show how a company has done in the past, understanding the business model will help investors get an idea of where it's headed.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

### PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

### Category

1. Investing
2. Tech Stocks

### Date

2025/08/27

### Date Created

2019/09/06

**Author**  
djagielski

default watermark

default watermark