



## Are You Wondering How to Value Stocks? Here Are 3 Popular Methods

### Description

Having success investing in stocks doesn't have to be difficult. In fact, employing a simple buy-and-hold strategy is one of the best ways to put your money to work.

However, even though we know we want to buy stocks low and sell them when they are high, we still need to identify the best companies and when to buy them.

If you're wondering how to put a value on stocks and how you can learn to determine whether a company is undervalued, fairly valued, or overvalued, here are three popular methods.

### Here's one of the most popular methods of how to value stocks

In many cases, the best way, and understandably the most popular way, to value stocks is based on the company's earnings both in the past and what it's expected to do in the future. And for stocks that aren't yet profitable, they are often valued by their sales.

Just looking at a stock's price, or even its chart tells us little about how much the stock is worth and whether or not it's [undervalued](#). So, in order to put a value on stocks, we have to look at how much the company typically earns for investors and then weigh it against the risk the stock has.

For example, a super-low-risk stock such as **Hydro One** currently has a [price-to-earnings](#) (P/E) ratio of roughly 21 times. So, in theory, at the current rate of earnings (although Hydro One is constantly growing), it would take approximately 21 years for the company to earn what investors had to pay to buy it.

In contrast, a stock that the market is a lot more uncertain about, **Corus Entertainment** trades with a P/E ratio of 5.5 times. It's much cheaper, but because investors think the stock has more risk, it may not actually achieve those earnings, which is why it trades at a discount.

Learning how to value stocks by their earnings and all the different valuation metrics that stocks in various industries are judged on is crucial. But often, it can only be one piece of the puzzle.

## Here's a quick and easy way to assess a stock's value

While looking at the value of stocks based on their earnings, or at least their sales, is one way, comparing them to how their peers are trading can also help you to determine their price.

A stock may look cheap on a P/E basis compared to what it's been valued at in the past. However, if it's still well overvalued compared to its peers, it could have more downside potential.

Conversely, if you find a stock that's valued similarly to some of its competitors, but you're confident it's a better company, that stock should probably warrant a higher ratio and is likely undervalued.

It's important to understand, too, that valuation levels across different sectors change based on the market environment. That's why for months now, tech stocks across the board have gotten cheaper.

As the risk in markets rises and the cost of capital increases, the valuation for all tech stocks will fall. However, the highest-quality stocks will still warrant premium valuations compared to their peers.

## A method used to value stocks in certain circumstances

In certain circumstances, and with some companies in particular industries, looking at a stock's net asset value or adding up the sum of its parts can be useful.

As I mentioned above, a lot of times, the value of a stock will depend on its closest peers. However, in some cases, stocks are so unique and their operations are so diversified that putting a value on each of its segments and then adding up the sum of each segment is how you value the stocks.

In other sectors, such as banking, real estate or mining, while these stocks are still predominantly valued by their earnings, their net asset values are also taken into account.

This way, by having multiple methods for how to value stocks, investors and analysts can put a more accurate value on these businesses. So, the next time you're researching a stock you want to buy, ensure you use multiple methods to determine if it's undervalued.

### CATEGORY

1. Investing
2. Stocks for Beginners

### PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

#### **PP NOTIFY USER**

1. danieldacosta
2. kduncombe

#### **Category**

1. Investing
2. Stocks for Beginners

#### **Date**

2025/08/05

#### **Date Created**

2022/05/14

#### **Author**

danieldacosta

default watermark

default watermark