Forget the P/E Ratio: This is What Investors Need to Know

Description

The price-to-earnings (P/E) ratio can be an invaluable tool for investors seeking to find valuable stocks. What the P/E ratio tells us is how a stock's value per share stacks up against its earnings per share. What it comes down to is how much investors are willing to pay for one dollar of stock compared to one dollar of earnings.

This is a great performance metric during a normal market. And it's even better when you're in a bull market. But a bear one? Not so much.

Why not?

The P/E ratio starts to look a lot less impressive during a bear market. Practically *everything* can look valuable in a bull market. Well, maybe not everything, but certainly far more than you'd find during a bear market.

Don't get me wrong. The P/E ratio should still be on your radar. But instead of using the oft-cited P/E as your only fundamental measure of stock performance, you may want to see how companies will fair during these times of trouble.

For that, you need to start looking at how much debt a company has on hand. All is well when shares are soaring. But if shares tank, the cost of financing assets with debt can take a huge amount of value away from the company. Suddenly, they don't have enough equity to cover their debts. So what then?

Enter the total debt-to-equity ratio

When stock prices and earnings are falling, investors should shift their attention to the total debt-to-equity ratio (D/E). The D/E ratio will tell you whether a company's equity (assets – liabilities) can cover their total debts. Just like the P/E ratio, you want this number to be as low as possible. And of course, it should absolutely be under 1, which indicates that 100% of the company's equity is able to cover 100% of its debts.

This can tell you whether a company is still going to perform well even if the market tanks further. And that's frankly something you need to know right now. We're certainly not out of the woods yet in any case. So where should investors look for these valuable stocks?

What to buy?

Suddenly, it gets a lot harder to find these valuable stocks when you look at the D/E ratio. And honestly, that's a good thing. You will finder far *safer* companies when you take the amount of debt leverage into consideration. Which is why I'm only going to recommend one.

The **Granite REIT** (TSX:GRT.UN) is perfect for those seeking both value and dividends. Granite stock has been investing in industrial properties for years, and continues to acquire new projects all the time. Granite stock is down 28% year to date, but it still represents value. GRT.UN offers a P/E ratio of 4.4, and a D/E ratio of 0.48. That means it would take 48% of its equity to cover its total debt.

So you can lock in value and gain a 4.02% dividend yield on Granite stock. Finding a value like Granite may take some digging, but this is one stock that will provide you with safety and security during these bearish times. And that's something every portfolio needs right now.

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alegatewolfe