



how to read the financial pages and charts

Getting to grips with stock
market information

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welcome

Venturing into the share price pages of the business section in a newspaper or websites such as the pse.com.ph can be a daunting prospect. You are greeted by column after column of figures, and what words there are seem designed only to add to the obscurity.

In reality, if you're interested in becoming a stock market investor, then these pages can provide an invaluable source of information. You just need to know how to read them, and that's what this guide is designed to help you do.

We'll also show you how to interpret market indices and share price charts, so that you're in a position to make well-informed investment decisions.

What the data won't tell you

Past performance should not be taken as a guide to the future: it's a familiar refrain in investment literature, but it's important to reiterate it here. What's happened previously to a share or fund price may demonstrate a trend or a consistent track record, but it gives absolutely no guarantee of what will happen next. So while it can pay to study history, don't assume it will necessarily repeat itself.

Understanding the basics

Highly successful investors like Warren Buffett seem to have a gift for reading between the lines of company reports and balance sheets. While you may not have his level of aptitude, it's important to be able to interpret the basic financial details that you will find in many newspapers and websites about shares trading on the Philippine Stock Exchange.

As you read through the business papers and websites, here's what you can expect to see.

Company name

Companies are grouped alphabetically within each sector. And the sectors are listed in alphabetical order too.

Price

The price shown is the closing price at the end of the previous day's trading. This is effectively a mid-price, and does not reflect what you will actually pay for a share (the offer price) or sell it for (the bid price). It provides an easy reference point, but not a precise price. And of course the price is likely to have changed anyway by the time you read the paper the next day.

Put in basic terms, you will normally pay more than the price shown in the paper when you buy a share, and get less than the price shown when you're selling.

Change

This column shows how the mid-price has moved (up or down) compared to the closing price of the previous day.

52 week high/low

This shows the highest and lowest price over the last year, so it's a useful way to see how the current price stands in relation to the trading range over that time.

Yield (YLD)

This is the income (dividend) paid on the share shown as a percentage of the current share price. For example, a share with a mid-price of 200p paying a dividend of 20p in a year gives a yield of 10% (20p is 10% of 200p).

Earnings per share (EPS)

This is the portion of a company's profit allocated to each outstanding share of common stock. The EPS serves as an indicator of a company's profitability.

Price/Earnings Ratio (P/E)

This is calculated by dividing the share price by the earnings per share. For example, if the share price is Php250, and the earnings per share are Php10, then the P/E is 25. One way of looking at it is to say that it would take this company 25 years to earn its share price.

P/E is a good guide to the relative value of one share compared with another, though it's best used only when comparing shares in the same sector, as different sectors tend to work on different price multiples. Also, remember that if a company is not making a profit then there won't be a P/E.

Volume

This is the total number of shares that were bought and sold during the previous day's trading.

Market indices

Share price information will give you the basic facts. But what investors are really looking to identify is the relative strength of a particular company, compared to businesses in a similar sector or of a similar size. That's where market indices come in. The main index in the Philippines is the PSE Composite Index (PSEi), a broad based index composed of a fixed basket of 30 listed common stocks selected to represent the general movement of market prices.

Every six months companies are promoted to or relegated from the PSEi. Being part of the PSEi gives a business considerable prestige, and being relegated from it can cause substantial loss of face. There can also be a tangible effect on the company's share price, as many tracking funds and other products mirror the PSEi. So falling out of the Index can cause a sell-off of a company's stock, as these funds re-balance their portfolios accordingly.

There are many other indices covering the different sectors of the Philippine Stock Exchange, with the All Share Index representing all the shares traded.

Abroad, the best-known index is America's Dow Jones Industrial Average (The Dow). Other markets have their key indices too – such as the Nikkei in Japan, the Dax in Germany and the Hang Seng in Hong Kong.

Indices can be used to gauge the strength of a particular sector or region. But they are also important in assessing how an individual share or fund is performing against its peers. Most funds will have a benchmark index which they are aiming to outperform. This gives an objective view of how well the fund manager is doing his job.

Reading Charts

One popular investment strategy is represented by the Chartists. These are investors who base all their decisions on a close analysis of past data, believing that this gives them an indication of future share price movements.

You can find out more about Chartists in our Introduction to Trading guide. Whilst you may not want to embrace this strategy wholeheartedly, it's still important to know how to read a graph, as it's a good way to get a picture of what has happened historically to a share or fund. Bear in mind the word historically, though. It can't be repeated too often that past performance is not a guide to what will happen in the future.

Unless you're taking a technical approach like the Chartists, you shouldn't fall into the trap of basing all your investment decision-making solely on the figures. Keeping your eyes open and your wits about you concerning what's happening in the wider world can be valuable investment tools.

How you interpret the figures is equally important, as we'll see from the examples that follow.

Graphs can be created to include an almost infinite variety of data, so you'll want to know what information you're looking for. A chart with dozens of lines on it is likely to lead only to confusion, not enlightenment.

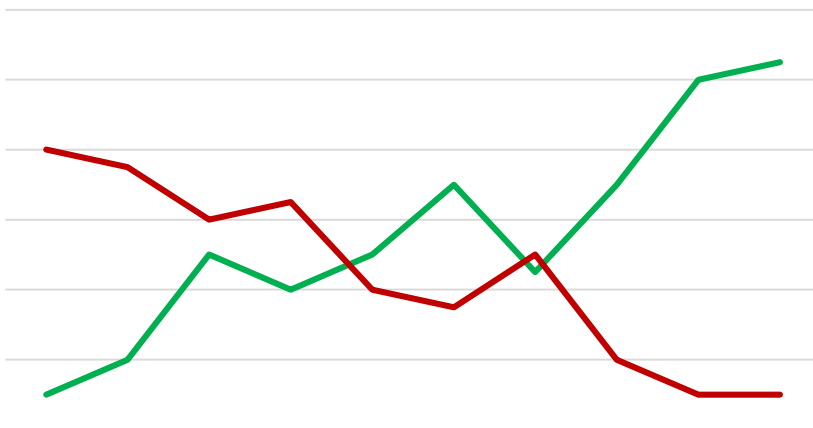
Trend lines

The chart below illustrates the share price movements of a hypothetical company over a period of time. The green ascending line demonstrates an upward trend, whilst the descending red line shows a downward trend.

What this means is that, although the price goes up and down during the upward trend, it never goes lower than its earlier low point. The lows aren't as low as they were before, and the highs get progressively higher.

During the downward phase, both the high points and the low points get progressively lower over time.

Of course, what really matters is the conclusion you draw from this. A Chartist would say that when a new low point breaks the uptrend line, it's time to sell. You may decide it means something else, but the main thing is that you are basing your view on hard data.



Benchmark

Most funds have a benchmark index that they measure themselves against. And shares can be tracked against a relevant index; for example, a bank stock against the financials index.

There's one truism about the stock market that is often quoted. This is the inescapable fact that, because an index represents the average of the shares or funds within it, then it's impossible for everyone to beat the index. There will always be winners and losers.

Some investors use this as a reason to invest in index trackers. These are funds that mirror a particular index, removing the need for individual share purchase or sale decisions.

After all, they would argue, what's the point in paying high management fees if half the managers are always going to be below average. And why agonise over which share to buy, when you can delegate it all to a tracker fund?

The counter-argument is that skilled fund managers can skew the odds in your favour. And analysing past performance can at least show you who has the most consistent track record. Likewise, spotting shares with potential can be more rewarding than settling for returns that will be, by definition, average.

Whatever your point of view, being as well informed as possible is always likely – quite literally – to pay dividends. Charts and graphs have a part to play in helping you acquire that information

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