BetterInvesting Space Coast Chapter

Tips, Tricks, & Techniques

% Compound Annual Return & % Projected Average Return

The Compound Annual Return (CAR) is simply the quantity of the Forecast High Price divided by the Current Price raised to the 1 over 5 power. Where the Forecast High Price is the product of your Selected High PE times the Estimated High Earnings per Share. The 5 represents 5 years.

CAG = (FHP/CP)^(1/5) as the equation would appear in an Excel worksheet.

Now the Projected Average Return (PAR) is the very same thing except that the Forecast High Price is the product of the Average PE times the Estimated High Earnings per Share. The Average PE is from your Selected High PE and Average Low PE. As an example:

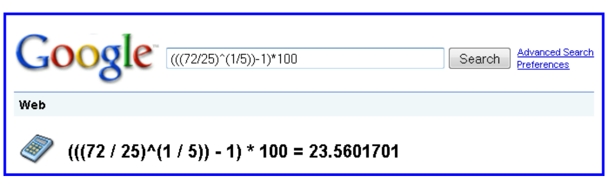
Input:

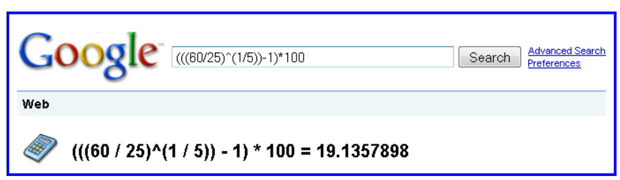
Current Price = $25.00
Selected High PE = 18
Estimated High Earnings per Share = $4.00
Average Low PE = 12

Calculations:

Average PE = (18 + 12) / 2 = 15
The Forecast High Price (for the CAR) = 18 * $4.00 = $72.00
The Forecast High Price (for the PAR) = 15 * $4.00 = $60.00
CAR = ($72/$25)^(1/5) = 23.6%
PAR = ($60/$25)^(1/5) = 19.1%

You may chose to use the Financial Calculator built into Toolkit 6 or Google to carry out the mathematics.





Earlier work on this subject follows.