

# PEG Ratio

Over the long-term, earnings, more than any other fundamental, drive the price of the stock

Consequently, the price of the stock should rise at about the same rate as earnings. If EPS rise at 15%, then the price of the stock should rise at about the same rate. This relationship helps us forecast the high PE in part 4A of the SSG [related info at TT # 20.]

As stated in TT # 20, one way to avoid an overly-liberal forecast for high PE is to make it no more than 1½ times the forecast growth rate for earnings per share. This is called the P/E to earnings growth rate ratio, or PEG.

7	AVERAGE	31.9	36.0	21.3	4.7
8	AVERAGE PRICE EARNINGS RATIO	28.6	9	CURRENT PRICE EARNINGS RATIO	19.9
Proj. P/E [16.89] Based on Next 4 qtr. EPS [2.56] Current P/E Based on Last 4 qtr. EPS [2.17]					
4	EVALUATING RISK and REWARD over the next 5 years				
<i>Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.</i>					
<b>A HIGH PRICE -- NEXT 5 YEARS</b>					
	Avg. High P/E	36.0	25.0	× Estimate High Earnings/Share	4.71
		(3D7 as adj.)		= Forecast High Price \$	117.8
					(4A1)
<b>B LOW PRICE -- NEXT 5 YEARS</b>					
	(5) Avg. Low P/E	21.3	18.0	× Estimated Low Earnings/Share	2.06
				= \$	37.1

**P/E: Projected Growth Rate [PEG Ratio].** Is a comparison of the PE with the one-year forecast growth rate of the EPS. Less than 110% is desirable [and rare.] Use as a *comparative* rather than an absolute figure. Example: If a company's PE is 21 and the forecast EPS growth rate is 14%, then

$$\text{PEG} = \frac{21}{14} = 1.5 = 150\%$$

The higher the ratio, the less of a "bargain" it is, since future returns are less from stocks that are already so over-valued. You can find a company's PEG by using the information in TT # 27, page 3.