Abstract

Fundamental Analysis has been the core of investing many years. One of the most important and popular measure is Price-Earning ratio, which measure the stock price is over-valued or under-valued. But recent change in investing world needs to modify traditional Fundamental Analysis. This Price/Earning ratio is commonly used by former Fed chairman Greenspan and Nobel laureate Shiller to value over/under priced stock valuation.

Other Factor: Growth

Not One of the Gang

By using PE ratio AMZN (Amazon) looks very expensively over-valued, which mislead investing decision. But using growth adjusted PEG ratio shows that Amazon is not over valued. Chinese tech company Alibaba(BABA) looks overvalued.

Other Factor: Correlation

Out of Sync

Recent changes in correlation also make traditional PE matrix needs to be changed.

Factor: Korean Discount

What will be the impact of political and geographical risk on investing. Recent Trump-Kim meeting is an example to lower Korean stock price with same earnings.

CONCLUSION

We modify Buffett-Graham-Dodd Price Earning ratio matrix model, so new model can reflect factor specific risk. Example we used was Korean Discount model. Due to Korean geographical risk which is shown recently by Trump-Kim denuclearization meeting also, Korean stock prices are generally lower than counterpart US stocks due to this risk. To reflect this risk, we need to modify original PE matrix to value Korean stocks for investing. Our model shows lower PE ratio after reflecting this risk.