

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



Earning Potential of an Investment

By www.ProfitableInvestingTips.com

The point of investing is to make money on your money. Judging the earning potential of an investment is basic to making this work. This is the case for both long term investors who buy and hold for years and for stock traders who attempt to time the market in search of short term profits. The earning potential of any investment depends on appreciation in value, realized earnings in the short term (dividends), and the value of the currency in which the investment is denominated. The last factor is affected by inflation and the volatility of the Forex market.

Judging the Earning Potential of an Investment

Your investment time horizon is a major factor in how you judge the earning potential of an investment. Stock traders use technical analysis tools to read the sentiment of the stock market but also use [market sentiment data](#) from other sources. This is because they are only concerned with how the price of a stock will perform in the near term when they decide to buy, sell, or trade options. On the other hand, long term investors look for intrinsic value. This is potential of an investment to make money over the long term. Using tools like the [CAPE ratio](#) a long term investor will purchase a stock during a market downturn because the company has long term potential that is not reflected by the current price.

Profit Potential in Business and Long Term Investing

Investopedia discusses whether [profit or growth](#) is more important for a business.

To be successful and remain in business, both profitability and growth are important and necessary for a company to survive and remain attractive to investors and analysts. Profitability is, of course, critical to a company's existence, but growth is crucial to long-term survival.

Profit in terms of money in the bank is important for keeping a business afloat during good times and bad. But, without assets being plowed back into R&D, expansion, and new products, a company will not grow. The goal of a long term investor is to choose investments that have both qualities namely a margin of safety in terms of cash and potential for steady growth over the years.

Market Timing and Profit

The market loves a stock that shows increases in its quarterly earnings. Thus, quarterly profits are a major driver for short term stock prices. The key to making this work for short term investors and traders is to correctly anticipate quarterly earnings in comparison to estimates. The stock price going into the release of financial report will have determined the prevailing stock price. That price will jump up or fall down based upon the released earnings.

How Long Will Profits Last?

Warren Buffett was famous for avoiding tech stocks until he became a huge investor in Apple. His concern was always that companies whose profits were based on advanced technology could not guarantee that their proprietary technology would stay in the forefront. He finally invested in Apple because he believed that Apple had a strong brand name and following. This puts it into the same category as Coca Cola and some of Buffett's other favorites. These stocks tend to be good long term investments. When looking at the earning potential of an investment, investors are wise to follow Buffett's lead and beware of investments that depend on a momentary lead in technology or companies without a strong brand name and following.

Another concern for offshore investors is the value of the currency in which a stock is denominated. The stock may go way up but if the currency takes a nose dive, that does not help. Sticking with ADRs is a useful way to avoid this problem as American Depositary Receipts are priced in US dollars.

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