Fundamental Analysis Can Greatly Increase Your Stock Picking Profits

Fundamental analysis is one of the most often overlooked techniques of stock picking. Many investors eschew fundamental analysis in favor of the flashier technical analysis made so famous by chartists over the years. Stock market charts are now animated wonders, so who doesn't love looking at them, especially since it's a lot easier than actually pouring through SEC statements adding up the numbers. But fundamental analysis never really completely goes out of style, because many of history's greatest investors, such as the greatest of all, Warren Buffett have practiced fundamental analysis as strictly as a devout person practices religion.

The reason great investors believe in fundamental analysis is because it's a great model of how things work. Companies report on financial operations that are best explained by numbers. Analysing the numbers rigorously, and placing personalities aside, gives a stock analyst the chance to really get a feel for how the company is doing. Why listen to hyped up PR statements when you can clearly see what a company really did, as reported by them in their statement of operations. The true story of operations will always flow to the bottom line, and a gifted fundamental analyst will seize this information like a pit bull devouring a piece of prime rib. In other words, he'll dig in and research the true performance of the company as told in numbers.

The general definition of fundamental analysis is the use of research tools to study the basic financial information released by a publicly traded company. All exchange listed companies are required to do financial reporting, and these reports are available to the public for analysis. Most short term price movements of stocks do not happen for fundamental reasons, but generally happen because of human sentiment. The amount of influence of the media on share prices can be quite dramatic, and many times stocks will swing wildy based on rumors that are circulating. Fundamental analysis assumes that despite these fluctuations, the company has an instrinsic value that can be determined mathematically and exists independent of the crowd's herd mentality. If you can correctly identify that price, you can make a huge profit on the difference between what the public thinks the company is worth now and what you know the company to be worth. You can buy at a discount and sell the shares when they get to their true value. In essence, this is the trading system that made Buffett the second richest man on the planet.

Learning fundamental analysis is not an easy subject, but it's not rocket science either. Once you have grasped a good familiarity with the terms, you'll be pleased to learn that companies report the data in a uniform matter. After you become proficient at technical analysis you'll be able to read complex financial information like a Frenchman reads French. You are now proficient in speaking the language of business, numbers, and now the numbers will tell you the truth behind the glossy press releases and the flowery conference calls. Armed with the story told by the numbers you can rest assured your investment decision is on solid ground.

About the Author

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