



Ratio Cheat Sheet

Part 1: The Liquidity Ratios



Stocks are often priced low because they have more debt than they can handle. Understanding liquidity ratios can help you steer clear of these overburdened securities.

CURRENT RATIO	HOW TO EVALUATE
$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$ <p>Current assets are assets a company holds that should be fairly easy to convert into cash within a year's time. Current liabilities are short-term debts, usually payable within a year's time.</p>	<p>Look for a value of at least 1 but ideally 2. Any value below 1 means the company's short-term obligations exceed its short-term assets.</p>
QUICK RATIO	HOW TO EVALUATE
$\text{QUICK RATIO} = \frac{\text{CASH} + \text{AR} + \text{MARKETABLE SECURITIES}}{\text{CURRENT LIABILITIES}}$ <p>Cash, accounts receivable (AR), and marketable securities are all assets that can be liquidated quickly.</p>	<p>The quick ratio is similar to the current ratio but includes only highly liquid assets as opposed to all current assets. A quick ratio of at least 1 is therefore more assuring than a current ratio of the same value.</p>
CASH RATIO	HOW TO EVALUATE
$\text{CASH RATIO} = \frac{\text{CASH}}{\text{CURRENT LIABILITIES}}$	<p>The cash ratio is "quicker" than a quick ratio, as it only considers cash assets. A cash ratio of 1 is more assuring than a current or quick ratio of the same value.</p>
OPERATING CASH FLOW (OCF) RATIO	HOW TO EVALUATE
$\text{OPERATING CASH FLOW RATIO} = \frac{\text{INCOMING CASH FROM OPERATION}}{\text{CURRENT LIABILITIES}}$ <p>Operating Cash Flow only includes cash obtained through regular company operations in the current time period.</p>	<p>A number lower than 1 on the OCF ratio is more easily forgiven than it would be on the Current, Quick, or Cash ratios. Nevertheless, just like with the other liquidity ratios, higher numbers are preferred over lower ones.</p>
PRICE TO BOOK (P/B) RATIO	HOW TO EVALUATE
$\text{PRICE TO BOOK (P/B) RATIO} = \frac{\text{MARKET CAP}}{\text{BOOK VALUE}} \text{ OR } \frac{\text{SHARE PRICE}}{\text{PER SHARE BOOK VALUE}}$ <p>A company's book price is what would be left over if all its assets were liquidated and all its liabilities paid (Assets - Liabilities = Book Price). Market cap (stock price multiplied by total shares outstanding) is a measure of the company's value on the open market.</p>	<p>The P/B ratio is used to determine whether a stock is "cheap" or "expensive." The lower the P/B ratio, the cheaper the stock and vice versa.</p> <p>As a BEST PRACTICE, compare book values of companies within the same market sectors. Different business types have different capital needs. Attempting to evaluate P/B ratios of stocks in disparate market sectors may create apples-to-oranges comparisons.</p>

Part 2: Solvency (and other) Ratios



Whereas liquidity ratios help investors assess a stock's short-term sustainability, solvency ratios help investors identify a stock's long-term potential and long-term strategy.

DEBT RATIO	HOW TO EVALUATE
$\text{DEBT RATIO} = \frac{\text{TOTAL LIABILITIES}}{\text{TOTAL ASSETS}}$	<p>When a company's debt ratio is 1, it has just as many debts as it has assets. For some companies, a debt ratio of 1 may represent the verge of instability. Other companies can sustain or even benefit from greater debt levels.</p> <p>Conservative investors may prefer debt ratios of .25 or lower. If the debt ratio is close to .30 or above, then it is a good idea to investigate the company's overall debt strategy before investing.</p>
PRICE TO EARNINGS (P/E) RATIO	HOW TO EVALUATE
$\text{PRICE TO EARNINGS (P/E) RATIO} = \frac{\text{MARKET CAP}}{\text{TOTAL EARNINGS}} \text{ OR } \frac{\text{SHARE PRICE}}{\text{EARNINGS PER SHARE}}$ <p><i>Earnings</i> are total collected revenues minus the costs of goods sold, depreciation, interest, taxes, and other expenses.</p>	<p>Like the P/B ratio, the P/E ratio helps investors determine whether a stock's share price is cheap or expensive. The lower the P/E ratio, the cheaper the stock is thought to be.</p>
PRICE TO SALES (P/S) RATIO	HOW TO EVALUATE
$\text{PRICE TO SALES (P/S) RATIO} = \frac{\text{MARKET CAP}}{\text{TOTAL SALES}} \text{ OR } \frac{\text{SHARE PRICE}}{\text{SALES PER SHARE}}$ <p><i>Sales</i> are total collected revenues, before costs of goods sold, depreciation, interest, taxes, and other expenses are accounted for.</p>	<p>A "good" P/S ratio depends on many factors, but if you can find a P/S of less than 1, then the company's sales numbers are outpacing its stock price – interesting!</p>
SOLVENCY RATIO	HOW TO EVALUATE
$\text{SOLVENCY RATIO} = \frac{\text{NET INCOME} + \text{DEPRECIATION}}{\text{SHORT-TERM LIABILITIES} + \text{LONG-TERM LIABILITIES}}$ <p><i>Net Income</i> (in this ratio) accounts only for income that can be readily converted into cash. <i>Depreciation</i> is the decline in asset value due to the passage of time or changing circumstances.</p> <p>The combination of both short- and long-term liabilities depicts the company's total debt levels.</p>	<p>The solvency ratio provides a solid, overall measurement of a company's ability to generate income sufficient to cover its debts.</p> <p>For normal stocks, a solvency ratio at 20% or above is (in most circumstances) considered healthy. Penny Stocks will often have lower-than-average solvency ratios, especially if they have yet to (or are just beginning to) turn a profit. The solvency ratio should steadily improve as the company matures.</p>
INTEREST RATIO	HOW TO EVALUATE
$\text{INTEREST RATIO} = \frac{\text{EARNINGS (BEFORE INTEREST AND TAX)}}{\text{INTEREST EXPENSES}}$	<p>The Interest Ratio allows investors to spot companies at risk of drowning in debt. If the interest ratio is 1.5 or less, the company may be in significant debt trouble and may be unable to find new capital lenders.</p>