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Matt Krantz

Financial Markets Reporter, USA Today



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by Matt Krantz



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About the Author

Matt Krantz is a nationally known financial journalist who specializes in investing topics. Krantz has been a reporter and writer for USA TODAY since 1999. He covers financial markets and Wall Street, concentrating on developments affecting individual investors and their portfolios. His stories routinely signal trends investors can profit from and sound warnings about potential scams and things investors should be aware of.

In addition to covering markets for the print edition of USA TODAY, Matt writes a daily online investing column called "Ask Matt," which appears every trading day at USATODAY.com. He tackles questions posed by the Web site's giant audience and answers them in a plain-English and straightforward way. Readers often tell Matt he's the only one who has been able to finally solve investing questions they've sought answers to for years.

Matt has been investing since the 1980s and has studied dozens of investment techniques while forming his own. Before joining USA TODAY, Matt worked as a business and technology reporter for *Investor's Business Daily* and was a consultant with Ernst & Young prior to that.

He earned a bachelor's degree in business administration at Miami University in Oxford, Ohio.

Matt is based in USA TODAY's Los Angeles bureau. When he's not writing he's either spending time with his wife and young daughter, running, mountain biking, or surfing.

Dedication

This book is dedicated to my wife Nancy, who has helped me do my best, my parents for urging me to do my best, my grandparents for inspiring me to do my best, and my daughter Leilani for giving me a reason to do my best.

Author's Acknowledgments

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Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Media Development

Project Editor: Jennifer Connolly

Acquisitions Editor: Stacy Kennedy and
Erin Calligan Mooney

Copy Editor: Jennifer Connolly

Assistant Editor: Erin Calligan Mooney

Editorial Program Coordinator: Joe Niesen

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Cover Photos: © iStock

Cartoons: Rich Tennant
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Composition Services

Project Coordinator: Sheree Montgomery

Layout and Graphics: Ashley Chamberlain,
Melissa K. Jester, Mark Pinto

Proofreader: Jennifer Theriot

Indexer: Infodex Indexing Services

Publishing and Editorial for Consumer Dummies

Diane Graves Steele, Vice President and Publisher, Consumer Dummies

Kristin Ferguson-Wagstaffe, Product Development Director, Consumer Dummies

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Composition Services

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Introduction

If someone gave you a dollar for every newfangled stock-picking method invented every year, well, you probably wouldn't need a book on investing. You'd already be rich.

Investors are constantly barraged with new ways to pick stocks and buy stocks. There's no shortage of pundits, professional investors, and traders who all claim to know the best ways to invest. The trouble is, most of their advice is conflicting and often confusing.

Maybe it's this constant swirl of investment babble that tempted you to pick up this book. And if so, you made a wise decision. This book will help you get back to the basics of investing and understanding business. Rather than chasing hot stocks that whip around, *Fundamental Analysis For Dummies* will show you how to study the value of a business. You'll then use that information to make intelligent decisions about how to invest.

While faddish stock-picking systems come and go, fundamental analysis has been around for decades. The ability to pore over a company's most basic data and get a good idea of how a company is doing, how skilled the management team is, and whether or not a company has the resources to stay in business is a valuable skill to have.

Fundamental analysis is best known as a tool for investors trying to get a very detailed assessment of what a company is worth. But you might be surprised to learn you don't have to be an investor to use fundamental analysis. If you buy a warranty from a company and want to know if the company will be able to honor it, that calls for fundamental analysis. If you just want to know "how well" a company is doing, you might also want to use fundamental analysis. And journalists, too, can use fundamental analysis to find stories that will interest readers.

The aim of this book is to show you what fundamental analysis is and help you use it as a way to better understand business and investment.

About This Book

Fundamental Analysis For Dummies is one of the most approachable texts to tackle this somewhat complex topic. Rather than bog you down with the nitty-gritty details that academics pull their hair over, I've attempted to lay out all the main topics and techniques you'll need to apply fundamental analysis to a variety of business tasks.

And while fundamental analysis is useful for anyone with an interest in business, I appreciate the fact you are likely hoping to make some money from fundamental analysis. And for that reason, the book is largely targeted toward investors who are either hoping to use fundamental analysis to manage their portfolios or to enhance their current system of selecting stocks.

As the author, I can share the tricks, tips, and secrets I've learned from a career writing about online investing for readers just like you. In the course of writing for USA TODAY, including a daily online column about investing called "Ask Matt" at USATODAY.com, I've answered thousands of reader questions that may be the same ones you have.

Fundamental Analysis For Dummies gives you all the tools you need to access fundamental data, process them, and make decisions. The book, however, stops short at showing you how to actually buy or sell stocks by choosing a broker and entering orders. If you're interested in the actual process of buying or selling stocks, that topic is covered exhaustively in my *Investing Online For Dummies* (Wiley).

Conventions Used in This Book

I want to help you get the information you need as quickly as possible. To help you, I use several conventions:

- ✓ **Monofont** is used to signal a Web address. This is important, since there are so many Web addresses in the book.
- ✓ *Italics* signal a word is a unique and important term for online investors.
- ✓ **Boldfaced** words make the key terms and phrases in bulleted and numbered lists jump out and grab your attention.
- ✓ Sidebars, text separated from the rest of the type in gray boxes, are interesting but slightly tangential to the subject at hand. Sidebars are generally fun and optional reading. You won't miss anything critical if you skip the sidebars. If you choose to read the sidebars, though, I think you'll be glad you did.

What You're Not to Read

This book is a reference, which means you don't have to read it from beginning to end (any more than you have to read a dictionary from beginning to end to get what you need from it). If you're in a hurry, you can even skip certain pieces of information and still get the gist of what you need. Here's what you can safely skip:

- ✓ **Anything marked with a Technical Stuff icon:** For more on this icon, see the "Icons Used in This Book" section, later in this Introduction.
- ✓ **Text in gray boxes, which are known as sidebars:** Sidebars contain interesting — but not essential — information.
- ✓ **The copyright page:** Sure, the publisher's attorneys' feelings will be hurt, but you can skip the fine print without missing out on anything important. Shh! I won't tell.

Foolish Assumptions

No matter your skill or experience level with investing, you can get something out of *Fundamental Analysis For Dummies*. I'm fully aware that for a vast majority of the public, the sight of tables of numbers in an annual report is boring at best — and scary at worst. The first part of the book is designed for you if you're curious about fundamental analysis and wondering why it's a common tool used by successful professional investors. Hoping to spare you from technical terms, I stick to plain English as much as possible. (When I have no choice but to use investing jargon, I tell you what it means.) But I also assume more advanced investors might pick up this book too, looking to discover a few things they didn't already know about fundamental analysis. The book takes on more advanced topics as you progress through it, and it carefully selects online resources that will add new tools to your investing toolbox.

How the Book Is Organized

All the chapters in this book are self-contained and can be read by themselves. If you've been dying to learn how to do a discounted cash flow analysis, go on, skip ahead and dive in. Believe it or not, the discounted cash flow analysis is one of the most common things USA TODAY readers ask me about. Jump around. Flip through. Scan the index and find topics you've been dying

to read about for years. And don't fear that you'll get in over your head if you read the back of the book first. If there are concepts you need to know at any point, I've carefully added references to those pages in the book, so you can jump around. This book is a reference, and you shouldn't feel as if you need to suffer through topics you already know or don't care to know. With that said, though, the book is assembled in a logical order. My goal is to start simple, and then ramp things up as the book goes on.

The book is divided into five parts, and the following sections give you a brief description of what you can find within each part.

Part I: What Fundamental Analysis Is and Why You Should Use It

If you've heard investors talk about fundamental analysis, but were never quite sure what it was, this part is for you. You'll discover not only what fundamental analysis is, but also why it's so powerful. You'll even find out how fundamental analysis might help boost your investment success even if you have other methods of buying and selling stocks. After reading the chapters in this part, you should have a good idea of what's entailed in fundamental analysis and how it can benefit you.

Part II: How to Perform Fundamental Analysis

Here's where we roll up our sleeves and start getting into specifics. Fundamental analysis starts with the fundamental data companies provide about themselves. You'll uncover what kinds of data companies generate and provide to the public, as well as what the numbers mean. And rather than setting you on a wild goose chase to find the data yourself, I give you very specific instructions on the best ways to retrieve all the fundamental data you'll need. In this part, too, you'll get an understanding of how to start not just reading fundamental data, but digging in and gleaning insights from them.

Part III: Making Money from Fundamental Analysis

Look. I'm not going to flatter myself and believe you're reading this book because you want to read all my clever analogies. You're probably interested in fundamental analysis because you want to make money or at least get a

better understanding on how to gauge the health and success of companies. Investors who use fundamental analysis to get a solid understanding of businesses and their values get a huge advantage over those who blindly chase stocks. In this part, you'll get exposed to some of the more advanced techniques fundamental analysts use to get insights about companies that aren't apparent to some investors.

Part IV: Getting Advanced with Fundamental Analysis

The chapters in this part take fundamental analysis even further, highlighting some of the more thorough techniques available. You'll find how to analyze an industry, the broad economy, and even how to marry fundamental analysis with other methods of evaluating investments.

Part V: The Part of Tens

The tens chapters break down concepts in a top-ten list structure. You can discover what financial secrets fundamental analysis allows you to uncover (Chapter 20), you can zero in on the things you should look at when analyzing a company (Chapter 21), and you can find out once and for all what fundamental analysis *can't* do (Chapter 22).

Icons Used in This Book

When you're flipping through this book, you might notice several icons that catch your attention. That's done on purpose. I use several distinct icons to alert you to sections of the book that stand out. Those icons are



These icons highlight info that you should etch on the top of your brain and never forget, even when you're getting caught up in the excitement of fundamental analysis.



Read these sections to quickly pick up insider secrets that can boost your success with fundamental analysis.



Some of the things covered in the book get a bit hairy and complicated. This icon flags such sections for two reasons. First, you may decide to avoid the headache and skip over them, since the info isn't vital to your understanding of fundamental analysis. Second, the icon is a heads-up that the paragraph is probably loaded with investment jargon. Don't be embarrassed if you need to read the section a second or third time. Hey, you didn't want this book to be too easy, did you?



Avoid the landmines scattered throughout Wall Street that can decimate your good intentions at building wealth with these sections.

Where to Go from Here

If you're a new investor or just curious about fundamental analysis, you might consider starting from the beginning. That way, you'll be ready for some of the more advanced topics I introduce later in the book. If you've already been using fundamental analysis or wondering if fundamental analysis might enhance a strategy you think is working for you, you might skip to Part II. And if you're dying to know about a specific topic, there's nothing wrong with looking up those terms in the index and flipping to the appropriate pages.

Part I

What Fundamental Analysis Is and Why You Should Use It

The 5th Wave

By Rich Tennant



"Fundamental analysis, Grace. Learn all you can about a company before investing in it. Even a bridal gown company."

In this part . . .

If you're not sure what fundamental analysis is or how it can help you invest, this part is for you. In this part, I define fundamental analysis and explain how understanding how a company makes money can help you make money. You find out how fundamental analysis compares with other ways of investing and get a quick description of how some successful investors put fundamental analysis to work. Lastly, I give you a quick rundown on the accounting that companies use to record their fundamentals for all to see.