

Financial Analysis

Financial analysis is evaluating the operating performance and financial condition of a firm, industry, or even sovereign nation, and forecasting the future operating performance and financial condition usually for the purpose of determining the true strength and stability of that firm, industry or sovereign nation. The insight this analysis provides is illuminating and essential input in determining to extend credit and/or purchase equity shares of the entity in question.

When most people speak of “financial analysis” they speak of it as it pertains to publicly traded, for-profit, corporations. And financial analysis is performed usually to learn the health and future prospects of a potential investment in a stock or bond. We will speak of financial analysis as it pertains to evaluating businesses.

No form of analysis has proven more effective at determining the true value of a business than financial analysis. And no form of analysis has proven more effective at spotting bargains than financial analysis. Careful, accurate and thorough financial analysis will be the cornerstone of any sensible investment strategy.

The most prominent and most important task within financial analysis is financial statement analysis. And the most prominent and most important task within financial statement analysis is financial ratio analysis.