

Fundamental Analysis

Fundamental analysis is learning how (and how successfully) a company makes its money. Fundamental analysis relies on no-nonsense financial analysis to determine the intrinsic value of a firm based on the future earning power of the firm, and not on what someone else might pay for the firm.

The key component of fundamental analysis is usually financial ratio analysis (including a study of how the ratios and their components are changing); and the key product is usually pro forma financial statements that are then used to determine the true value of the firm in question.

Investments that score well on this type of analysis are usually referred to as “having good fundamentals.” And investments that score poorly are investments that “have poor fundamentals.”