**The Top Three Metrics You Must Consider Before Buying A Stock**

The best thing that you can do in your life is invest your money in the stock market, especially from a young age. The worst thing that you can do in your life is invest your money in the stock market with no amount of technical knowledge at all.

Let’s get one thing out in the open first. There’s a massive difference between ***an*** ***investment and a gamble***. If you are simply throwing your savings into the stock market without knowing the first thing about it, then you’re not a trader. I’m sorry. You’re just a gambler.

When I was starting in the stock market some three years ago, the only advice that I received from a hundred thousand people, was to invest in blue-chip stocks. What a lot of them branded as ***“My Best Bet”.*** So naturally, when I had enough money to invest, I thought to myself:

*“What are the chances of this many people being wrong about the stock market?”*

As it turned out, quite strong. Yes, the stock market is funny like that.

What a lot of us fail to realize is that the “Best Bets” are also just businesses, at the end of the day. And so, there is a bunch of stuff that these companies can’t possibly control. Stuff that usually goes by the name of ***“Black Swan Events”*** in the stock market. This can include economic recessions, widespread corrections, unexpected events, and a lot more.

Take the Coronavirus pandemic as an example of a *black swan event.* Go ahead and see the kind of impact it had on the U.S. based airlines; the stocks that usually fall under the blue-chip umbrella.

Point being, there’s clearly a lot more to assess before you decide in favor of buying those blue-chip shares. Let’s talk about three of such metrics that you must consider before buying any stock.

1. **Price To Earnings Ratio**

Price to earnings ratio or PE ratio is a valuable metric that offers an insight into the relative value of your chosen stock. Technically, the PE ratio determines a company’s market value in relation to its earnings. In simpler words, though, it just tells if the stock is undervalued or overvalued.

The best part is that there is no amount of calculations involved. You can simply open the company profile, or the stock chart, on potential any resource on the internet. Be it Google, Yahoo Finance, Business insider or any other. You will always find the PE ratio of your chosen company already listed on the page.

If you are still interested in the calculation, though, all you have to do is divide the company’s market capitalization by its total earnings. You can get the figure for earnings from its most recent financial report.

But wait, there’s more.

If your chosen company is about to report earnings in the upcoming weeks, you can divide its market price by the experts’ forecast for earnings and calculate what is usually called the forward-looking PE ratio. That goes a long way into predicting how the stock is likely to perform in the future.

As a standard, a PE ratio below 15 represents a value stock, or a stock that is undervalued. A price to earnings ratio that tops 20, on the other hand, marks a stock that is overvalued, or a growth stock.

As evident, a PE ratio is primarily a standalone metric. But what if you want to compare a given stock with its peers in the same industry? In that case, you should use an alternative metric called the *“Price To Sales Ratio”.*

The price to sales ratio is also a preferred metric when the company’s earnings are negative. The PE ratio, in such cases, is usually deemed inconclusive. To calculate the price to sales ratio, you have to divide the market cap of your chosen company by its revenue, or total sales, instead of its earnings.

1. **Debt To Equity ratio**

If you are not so much into finance, you would probably think of debt as the antagonist of the business world. But what if I told you that debt is simultaneously a protagonist as well?

Too much of it, of course, has the potential to push a company into a pitfall. In moderate amounts, though, it fuels growth as a source of capital that bolsters the company’s expansion efforts.

Debt to equity ratio is an excellent metric that offers an insight into the relative strength of the stock compared to its peers in the same industry. In other words, it helps you assess the financial leverage of your chosen company.

If you are interested in finding out if the majority of the company’s operations are being financed via wholly-owned funds, looking into its debt to equity ratio is the way to go. Traditionally, a lower number represents a lower risk for the shareholder i-e you.

A higher number, on the contrary, implies that the company is financing the majority of its operations via debt. A business downturn, therefore, will put you immediately at a loss. So, understandably, a higher debt to equity ratio is a red flag for a serious stock market investor.

Much like the price to earnings ratio, you can find the debt to equity ratio of your chosen company easily with a simple Google search. But if you fail to find the relevant information, all you have to do is divide the company’s total liabilities with its total shareholders’ equity. You can find these figures listed on the company’s balance sheet.

1. **Sales Growth Rate**

This brings us to the third metric that will guide your decision of investing in a particular stock. When it comes to evaluating the company’s sales growth rate, you should consider the data for a longer period. Not monthly, not quarterly. We’re talking three to five years here.

It doesn’t take a hefty business acumen to understand that ***“higher sales”*** is an indicator of optimum financial performance, right? But a multitude of reasons can push the company’s sales up in a given month or quarter. A boost that may not sustain in the future.

For instance, cleaning products, hand sanitizers, etc. are very much in demand at the moment due to COVID-19. But once the virus subsides, it is arguable if the demand will sustain in the long-term.

When you look at the company’s sales growth rate over a longer period of up to five years, you get an insight into the general pattern of demand for its products or services. If the trend is going up, you can say with some confidence that the company has captured the market and the numbers are likely to remain strong.

But if the growth rate is somewhat stagnant, I would recommend novice investors to stay away from such stocks. Further to this, if the economy is at its full swing and yet the company’s growth rate is in the ***zombie mode***, that’s a huge red flag for investors of all calibres.

It just implies that the company is expected to struggle with profitability in future. In the worst-case scenario, it may go out of business if timely measures for adaptability are not taken.

Here’s the interesting part. More often than not, stocks with higher sales growth rate will also have a robust PE ratio. Because they predict sales growth to translate into pricier items in the future.

So, if your chosen stock checks one of these metrics, it is likely that it’ll check the other as well. With two metrics checks, you are already one step closer to investing in this stock with confidence.

These are my top three metrics that I would recommend all novice investors to consider before putting their money in the stock market.

I understand your obsession with the ***“No Pain, No Gain”*** theory. A lot of the times, you’d be excited to take a greater risk in hopes of making an even bigger profit. But what you need to understand is that things take time. It’s like what Warren Buffett said:

*“The most important quality for an investor is temperament, not intellect”.*

Once you improve your knowledge of the stock market, when your stock analysis approaches advanced level, you’ll then have all the time in the world to take higher risks and earn big.

As a beginner, though, precaution will be your best friend if you are not thrilled about losing your saved money in the stock market.

Look for companies that check not one, not two, but all three of these metrics to be on the safer side. You may also want to mix and match it with a bunch of other indicators as well.

Like volume, for example. Try to invest in stocks that boast high volumes, since it is also an indicator of demand. If the volume is going through the roof, it is safe to assume that eventually, the price will start to follow.

As evident, there are countless things to consider when investing in the stock market. My intent here was to highlight a few of the easier to use metrics for beginners so you would at least not step into the stock market blindfolded.

But don’t stop here. It’s only the beginning. Remember, the more you will learn, the more you will earn.