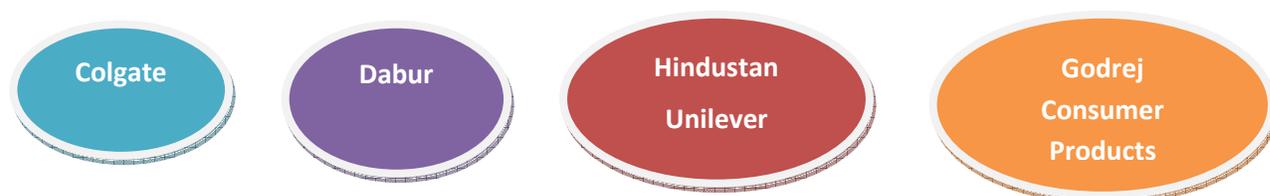


## Relative valuation - selecting the right stock

Does it happen to you that you get confused which stock to buy in a particular sector? For example, you want to buy one or two stocks, listed below, in the FMCG sector, but you don't know which one is the best one?



Stocks belonging to a particular sector have similar factors affecting their business and so they will react in similar manner. However, few stocks will outperform their sector peers. From the above mentioned four stocks, it is quite possible that although all the four FMCG stocks record positive gains in the long term, one or two may record exceptional gains. Therefore, it is important to identify which stock or stocks would outperform the sector over the long run to earn superior long-term returns.

The process of selecting a stock among its peers is similar to buying any product. Let's say you want to buy a luxury product like the latest LED television. So, what do you generally do? You go to various stores and then evaluate your options among the available LED televisions in the market. You compare the features available across the different LED televisions. After a careful consideration of various aspects, you select the LED television that offers you the best features at the most competitive price.

Similarly, selection of a stock among a basket of stocks belonging to a particular sector involves evaluation on a relative basis. You need to identify which stock is fundamentally stronger and at the same time cheaper in valuation compared to its sector peers. Sometimes a company's valuation is already very high, making the investment, at a particular point in time, less profitable. So, the next move should be to identify another stock in the same sector whose valuation is compelling and fundamentals are also equally good or better, resulting in a higher reward-risk ratio. This evaluation process is termed as relative valuation. There are various parameters that are employed in this relative valuation methodology like P/E multiple, EV/EBITDA multiple etc to help you in selecting the right stock for your portfolio.

If you would like to understand more about the concept of relative valuation, then register for one of our free **"Power Money Workshops"** and join our investing education programme called **"Stock Investor"** to polish your investing skills. Not only do we teach you the step-by-step process of identifying fundamentally sound stocks, but you also learn how to invest like a professional. So, come and experience it yourself!