Twitter Thread by Matt Allen ■

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Most people want to be an investor

But most people don't understand common investing terms.

Here are 10 terms that every investor should know:

1/ Dollar Cost Averaging

This is when you invest a fixed amount of money on a regular basis.

It does not matter what the stock market or individual stock price is doing.

When you use this method, you don't have to time the stock market.

2/ Cynical Stocks

These are stocks that move in cycles with the broader economy

For example, when the economy is booming, airlines and hospitality stocks are booming as well.

If the economy sucks, people don't have the extra money to purchase airline tickets.

3/ Book Value Per Share

This is a ratio that takes the firms common equity divided by its number of shares outstanding

A possible undervalued stock will have a higher book value per share compared to its underlying stock price.

4/ Intrinsic value

Intrinsic value is when you determine the true value of a stock price.

Once you determine intrinsic value, you can determine if the stock price is undervalued or overvalued.

Warren Buffett preaches finding the intrinsic value of a stock.

5/ Discount Cash Flow

DCF is a valuation method used to find the intrinsic value of a stock based on future cash flows.

The present value of expected future cash flows is arrived at by using a projected discount rate.

This is the formula that I use.

6/ Market Capitalization

The market cap is what is used to determine the size of every public company.

When you look at the value of a company, you should look at the market cap before the share price.

Market Cap = Current Share Price * Total Number of Shares Outstanding

7/ PEG Ratio

The price/earnings to growth ratio is a stock's p/e ratio divided by the growth rate of its earnings for a specific period.

This ratio is used to determine a company's value while factoring in future earning's growth.

A PEG ratio below 1 is undervalued

8/ Price-Sales Ratio

The price-sales ratio is a valuation ratio that compares a company's stock price to its revenues.

Basically each dollar that the company makes is given a value.

This ratio shows how much investors are willing to pay per sales the company makes

9/ Return on Equity

ROE is a measurement of how efficient a company is in using its assets from their shareholders to create earnings.

The higher the ROE, the more efficient a company's management is at generating income and growth

10/ Rule of 72

The rule of 72 is a simple formula that is used to estimate the number of years required to double the invested money at a given annual rate of return

It is best used when the rate of return is between 6-10%

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