

Factors Determining Profitability In The Market

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In the article, the author is trying to convey factors or approaches which can be used to determine the profit earned from any market. In order to explain the points, the author used fundamental argument or analysis and accounting techniques for deriving profit in business. It is illustrated that the profit being earned is determined by changes which occur in a specific market. For instance, in the stock market, more profit is earned when something happens abruptly, which causes the price of shares to rise (Bartram and Grinblatt). However, when the price of shares increases, the deviation point is marked and based on the deviation point, the profit earned is calculated. This is applicable across all markets, and the change or deviation is what allows a company or business to generate profit.

However, the author supported the argument using different approaches so that it can be understood. First, the author used different fundamental analysis approaches to illustrate how the profit is calculated. The fundamental analysis is based on the opinion that stocks have an actual value and investors can make a good profit from the stock when a certain deviation happens in the market, which makes the value fair. The author further stated that the deviation point moves from the convergence to a fair value, and the difference between the convergence and the fair value is the profit earned from the market (Bartram and Grinblatt 15).

It means that profit is realized when a change occurs in the market, and such change should be an increase in the value of the share. If the value of the share decreases, the profit is not earned, and it can be a loss to shareholders or the company in the case of a profit and loss account. It is also noted that the profit earned is based on the growth rate of both long-term and short-term cash flows. It means that when an organization improves its cash flow, a profit is earned in the sense that the cash increases as well. It is illustrated that profit is based on It is stated that profit is earned when certain anomalies happen within the market segment.

Table 1: Summary Statistics by Mispricing Signal Quintiles

	All	Correlation	Q1 (Overvalued)	Q2	Q3	Q4	Q5 (Undervalued)
Mispricing Signal (M)	0.9640	1.000	-2.0253	-0.2427	0.3996	1.3042	5.3848

Market Capitalization	2,847.7	-0.068	3,541.8	5,941.9	3,006.4	1,365.7	381.3
Book/Market	0.5774	0.291	0.4071	0.4198	0.5054	0.6361	0.9186
Beta	0.9280	-0.139	1.0259	1.0018	0.9764	0.9102	0.7227
Accruals	0.9507	-0.010	1.8169	0.8555	0.6942	0.6995	0.7328
SUE	0.0140	0.026	0.0275	0.0021	0.0093	0.0230	0.0082
Gross Profitability	0.3685	0.042	0.3011	0.3811	0.3907	0.3875	0.3819
Earnings Yield	0.0210	0.159	-0.0537	0.0271	0.0387	0.0439	0.0488
Prior Month Return t	2.0692	-0.029	3.5124	2.7653	1.9508	1.3282	0.7908
Return from Month t-1 to t-11	23.41	-0.068	38.741	32.365	21.825	14.64	9.670
Return from Month t-12 to t-59	99.43	-0.048	109.19	114.73	107.47	92.44	73.45

In Table 1 above, the important overvalued and undervalued figures are on the table since figures are used to calculate mispricing. However, the more important figures in this table are returns from the Month and the Prior Month Return. Based on the illustration provided from the fundamental analysis or point of view, profit earned based on the table can be derived when the prior month's return is subtracted from the return from the month. The prediction of undervalue or overvalue is used as a market indicator to predict the future performance of stocks in the market. Through prediction, investors can decide whether to invest for future earnings or profitability.

The table shows the effect of mispricing on gross profitability, accrual, market capitalization and the stock market. It illustrates that overpricing and underpricing of market values can undermine the profit, which makes it difficult to give a true value of the profit earned. The author narrated that the misprice is based on the prediction of the future return, and when the overpriced quintile has a higher accrual, it means that the gross profit shall be lower or less. The table also shows that the gross

profitability, book-to-market, earnings-to-price accruals and past returns lower the future average earnings. This means that mispricing (M) controls the return from the market. The mispricing is applied to predict the next return on a certain segment of the market, and high prediction can translate to higher profitability. Therefore, the table shows what happens to various markets when mispricing is applied and the effect that mispricing has on the market and profitability.

The report is essential in making investment decisions since it illustrates how the stock market operates. However, investment managers can use the report to analyze the market performance and provide appropriate advice to investors, especially when or how to invest in the stock market. It can also be used by investment managers to predict the prices of shares and market value, which can be used to advise customers or investors. Investment managers can predict the prices of various stocks or the future prices of various shares in the market and influence customers to invest in order to earn more dividends or profits in the future. This is because most people who invest in the stock market usually put their investment for future earning, and with such detailed reports, investment managers can convince customers to invest more and, therefore, earn a fortune for the company.

Works Cited

Bartram, Söhnke M. and Mark Grinblatt. "Agnostic Fundamental Analysis Works." (2017): 1-56.