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Comparing Companies

Two shiny, new cars sit on a dealer's lot. Identical on the outside, one has a powerful V-8 and goes from 0-60 in 4 seconds. The other is a hybrid, and while slower, gets over 40 miles to the gallon.

Similar differences exist between individual companies in most business sectors. One company will be the fastest growing. Another company will produce the most sales per employee. And typically, one company's stock will have outperformed the sector and all the other companies in it.

Comparing the income statements, balance sheets, and other past financial performance metrics of different companies in a sector may help you identify the company with the greatest potential to outperform its peers in the future. Historical stock price, volatility and dividend yield data may also help you know whether you are looking at an industry leader or an industry laggard.

Remember that finding the company that is right for you to invest in is as personal as choosing a car. One investor may seek the company with the fastest sales growth, another the company with the most attractive price/earnings ("P/E") ratio, and yet another the company with the most stable dividend payment history.

Rarely will a single company in a given sector outperform its peers in all these measurements, and which comparison is most relevant will vary with both the sector and the individual investor. Investors in the banking and insurance sectors, for instance, often look more for stable dividend yields than rapid growth, while investors in high-tech sectors are often just the opposite. Making relevant comparisons between companies in a sector attractive to you as an investor will help you identify the company or companies that have the best chance of helping you reach your investment goals.