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Title: What Is a Target Price?

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Target Price

If you were boarding a plane, you would expect to know where the plane was going. When you choose to invest in a company stock, you should have an informed opinion on how you expect that stock might perform over the coming 12 or 24 months. Stock analysts and sophisticated individual investors summarize that opinion by giving a *target price* for a stock.

The *target price* is the price analysts and investors believe a stock might sell for at some date in the future if the economy, the markets and the company perform according to the analyst's or investor's projections during that time. Because the *target price* reflects, to a certain degree, an analyst's opinion about a stock, different analysts will each have their own, usually somewhat different, *target price* for a particular stock.

A reliable *target price* is arrived at after a diligent analysis of a company's recent financial condition, stock market performance, and prospects in the market place. A good *target price* analysis might incorporate recent historical data comparing the company's stock price to its earnings (its "P/E ratio"), book value ("P/B ratio") or sales ("P/S ratio"), and make reasonable assumptions about how these factors might play out in the near future. The *target price* might also take into account how the subject company's financial and market performance has compared in the recent past to other companies in the same industry or sector, and to broader indexes like the Dow or S&P 500.

The *target price* doesn't just play a role in deciding whether to buy a stock, it also plays a critical role for some investors in deciding if and when to sell a stock. If a stock hits its *target price* within the target time frame, an investor would have achieved the expected results from that investment, and should at least consider selling to lock in her gains.