What equity analysis is for: the business is real, the multiple is a mood

> **PRICE EQUALS EARNINGS TIMES MULTIPLE**
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> The decomposition every share price obeys: what the business earns, times what the market currently pays per unit of earnings. The first factor is a real, auditable object; the second is a crowd's mood with a decimal point. Equity analysis is two different disciplines wearing one word, and most retail confusion is doing one while believing it is doing the other.

The commodities track could afford low scepticism - real tanks, real freezes. The FX track demanded high scepticism - crowd-reading all the way down. Equities sits precisely between, and the split runs through every share price on the board: price is earnings times multiple, and the two factors live on opposite ends of that spectrum.

The business half is causal work

Revenue, margins, cash generation: a company is an auditable machine, obliged by module 1's listing bargain to publish its workings. Analysis of the business is commodities-grade causal work - the machine can be understood, its results estimated, the estimates audited four times a year against reality. When this half of analysis is wrong, the quarterly report says so, in numbers.

The multiple half is crowd-reading

What the market pays per unit of those earnings - fifteen times, thirty times, eight - is not a property of the machine. It is the crowd's current opinion about the future, the sector's fashion, the rate environment's gravity: FX-grade sentiment with an equity costume. Multiples double and halve with no change in the underlying business, and no quarterly report ever adjudicates them - which is exactly the FX track's warning about analysing objects whose mechanism is other people.

Why the split is the module

Most large equity moves are multiple moves: entire bull and bear markets happen in the second factor while aggregate earnings plod - the trader who cannot say which factor moved cannot say what happened.The disciplines do not transfer: earnings work rewards accounting depth; multiple work rewards the crowd-reading habits of the FX track - applying either toolset to the other factor is the base confusion.Every read this module builds names its factor: a view on the business, a view on the mood, or explicitly both - because they can disagree, and being right about one while the other moves against you is the commonest way a correct analysis loses money.

Check your understanding

1. A company's earnings grow 10% over a year in which its share price halves. What happened?

a. The market made an error the price will correct

b. The multiple compressed by more than the earnings grew - the crowd factor moved against the business factor, and the price obeyed the product

c. The earnings must have been misreported

Answer: b. Price is earnings times multiple. The business half performed; the mood half more than undid it - and no analysis of the machine alone could have seen the whole move.

2. Why does equity analysis sit between the commodities and FX tracks on the honesty spectrum?

a. Equity data is of intermediate quality

b. One factor of the price is an auditable machine, the other is a crowd's opinion - the asset is half causal object, half sentiment

c. Equities are regulated more lightly than FX

Answer: b. The business rewards causal work the way tanks and freezes do; the multiple demands the scepticism FX taught. Equity analysis is both disciplines, and naming which one is in use is the module's first rule.