As we all know, prices of stocks may go up and down.

Stock volatility reflects market sentiments, but it is not necessarily a bad thing.

In fact, short-term price drop may even create opportunities for long-term investors.

Market plunged sharply during financial crises when investor sentiment turned sour drastically.

However, market often recovered and rose to new highs over the long term.

That's why investors who sell under short-term fluctuations may miss the profit opportunities in the long run.

On the contrary, employing a long-term strategy can mitigate the impact of market volatility on your investment plan.

Some indicators are helpful in analysing the stock values when making long-term investment decisions.

A common indicator is price-earnings ratio which compares the price of a stock to the company's earnings per share. In general, a lower ratio represents cheaper valuation.

If we compare the stock prices of company A and B, B looks cheaper with a share price of $10.

The truth is, given the higher earnings per share, company A is trading at a price-earnings ratio of 5x which means A is actually cheaper.

There are two types of price-earnings ratio.

One is historical P/E ratio which is calculated using reported earnings such as earnings per share in the previous financial year.

The other is forward P/E ratio which is calculated based on forecasted earnings per share over the next year.

Historical P/E ratio could be helpful as a reference to evaluate the current P/E as P/E ratio is a relative indicator and forward P/E is also important as it offers clues on a company's prospect.

Moreover, investors should be mindful that P/E ratio varies among different industries.

While technology stocks typically enjoy higher P/E ratio, suggesting high expectations for future growth, traditional industries with less room for growth such as the industrial and materials sectors usually trade at a lower P/E ratio.

As a result, it would be more reasonable to evaluate a stock's P/E ratio in comparison with other stocks of similar business nature.
Besides P/E ratio, there are other valuation tools like price-to-book ratio and dividend yield. Apart from valuation, investors should also consider other factors such as operational capability, financial conditions, news on mergers and acquisitions etc. when evaluating a company.

Meanwhile, macroeconomic factors such as government policies, interest rates directions and economic conditions, as well as market sentiments will also affect stock prices.

Stock investment could be difficult with so many factors affecting stock prices. Different types of stocks also perform differently under various market conditions. Equity funds thus provide a solution by investing in a basket of stocks which help diversify risks and at the same time capture wider opportunities.

With our global network of investment professionals and resources, HSBC Global Asset Management equity teams select investments using insight and judgement based on our deep experience and proprietary fundamental research on corporates and macro-economy, with an aim to deliver consistently strong long-term results.

We offer a wide choice of equity funds covering global, regional, or single markets, as well as diversified fund selections on different sectors or themes such as high dividend and small-cap funds to meet a broad range of investment goals.