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Basics · BEGINNER · AI ASSISTED · 6 min read · Sep 21, 2026

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What Is a P/E Ratio? How to Read the Most-Quoted Number in Investing

What price-to-earnings measures, how to calculate it, and why a "high" or "low" P/E means little on its own.

Updated 4 Nov 2026

Read online: https://traderange.net/learn/what-is-a-pe-ratio-acinycvb/



The price-to-earnings ratio (P/E) is the most quoted valuation number in investing. On every stock page, in every earnings story and in almost every argument about whether a share is cheap or expensive, you will find it. That said, a P/E on its own tells you surprisingly little. This guide covers what the number measures and how to calculate it — and why two companies with very different P/E ratios can both be reasonably priced.

What is a P/E ratio?

A P/E ratio compares a company's share price with the profit it earns for each share. It answers a simple question: how much are investors paying today for each unit of the company's annual earnings? Take a P/E of 20: buyers are paying 20 times the profit per share that the company made over the last year.

How to calculate P/E

The formula is simple: **P/E = share price ÷ earnings per share (EPS)**. Earnings per share is the company's net profit divided by the number of shares outstanding. Most data sites (TradeRange included) use the last twelve months of reported earnings; this version is called the trailing P/E.

> **Worked example: Apple**
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> In TradeRange data from 21 September 2026, Apple (AAPL) traded at $338.98 with a trailing P/E of 38.9. Dividing the price by the P/E gives earnings per share of about $8.71. Put another way, investors were paying almost 39 times Apple's last year of profit per share.

By dividing market capitalisation by net income, you can also calculate P/E for the whole company. The result should be close to the per-share figure. Take Nvidia: its market cap of $5.49 trillion divided by its net income of $192.9 billion gives about 28.5 — close to its reported trailing P/E of 28.7. Because share counts and reporting dates do not line up exactly, small differences creep in.

Trailing P/E vs forward P/E

The trailing P/E looks backwards; the forward P/E divides the current price by analysts' estimates of earnings over the next twelve months. When a company is expected to grow quickly, its forward P/E will sit well below its trailing P/E. Nvidia is a clear example: its trailing P/E is 28.7, but its forward P/E is 14.5. The same pattern shows up in Tesla at a different scale, with a trailing P/E of 344.3 and a forward P/E of 170.8.

Forward P/E is useful, but it depends on forecasts. On top of that, analysts' estimates can be wrong, and they often get revised after earnings reports. As a result, many investors check both numbers side by side.

What is a good P/E ratio?

There is no single good P/E. The number only makes sense when you compare it with something: the company's own history, its competitors, or the wider market. A bank and a chip designer earn money in very different ways, so the market prices their profits differently.

TRAILING P/E RATIOS, TRADERANGE DATA AS OF 21 SEPTEMBER 2026. DATA IS DELAYED.

COMPANY	TICKER	SECTOR	TRAILING P/E
JPMorgan Chase	JPM	Financial Services	15.1
Coca-Cola	KO	Consumer Defensive	26.2
Microsoft	MSFT	Technology	27.9
Nvidia	NVDA	Technology	28.7
Apple	AAPL	Technology	38.9
Tesla	TSLA	Consumer Cyclical	344.3

In the table, the lowest P/E belongs to JPMorgan Chase at 15.1, while Tesla's trailing P/E of 344.3 is roughly 12 times Nvidia's. A high P/E usually means investors expect profits to rise sharply. A low P/E can signal a bargain, but it can also mean the market expects earnings to shrink.

When P/E stops working

The ratio breaks down in several common situations.

- Negative earnings: if a company lost money, its P/E has no meaning. Ford currently reports a profit margin of -3.9%, so it has no published trailing P/E.
- One-off items: a large asset sale or write-down can skew a single year's profit and, with it, the P/E.
- Cyclical businesses: carmakers, miners and energy companies often look cheapest at the top of a cycle, when profits are temporarily high.
- Fast growers: a young company that reinvests everything may show tiny profits and a huge P/E for years.

Tesla puts a different spin on the last point. Its revenue grew 25.5% year on year, yet its earnings fell 3%. So its P/E is high not because profits are exploding but because the price assumes they will.

How to use P/E in practice

1. Compare a company with its direct competitors, not with the whole market.
2. To see what is normal for it, look at the company's own P/E over five or ten years.
3. To see what growth is already priced in, check the forward P/E.
4. Pair P/E with other measures such as profit margin, debt and cash flow.

Extra ratios such as PEG, which divides the P/E by the expected growth rate, can help you judge whether a high P/E is justified. P/E, forward P/E and PEG can be found for any listed company on its TradeRange stock page.

KEY TAKEAWAYS

- ✔ P/E = share price ÷ earnings per share.
- ✔ Trailing P/E uses last year's profit; forward P/E uses analyst forecasts.
- ✔ A P/E only means something when compared with peers, history or the market.
- ✔ Companies that lose money have no meaningful P/E.
- ✔ A high P/E is a bet on growth, not proof of it.

⚠ **Not investment advice**

As of 21 September 2026, these figures are TradeRange market data and are delayed. They

> are meant for education only, not as investment advice. Refer to Terms and Conditions for more detail.

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