The Investor's Difference Between Focusing On Per Share Profits Versus Revenue Growth©

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Investors buy something with the intent of selling it at some point in the future at a higher price. The belief is that in the passage of time the value of that purchased will increase.

Such an increase in value is possible if that purchased is art, jewelry, gems, antiques or other objects not requiring a change.

When an investor buys shares in a company the belief is the shares will be more valuable in the future due to the company being bigger and more profitable. However, if the purchase price is higher than the per share book value there is already a premium price/earning ratio being charged, which will have to be justified for there to be a profit for the investor.

That which represents value in most companies is a growth of per share earnings. Two problems, one is there has to be sustained and increasing profitability and the company will have to have been able to grow without having issued more shares which reduce the percentage ownership of the investor.

Profitability is the result of good management of a company. Per share profitability is a result of management being able to obtain financing which is either non-dilutive or disproportionate to the growth of revenues, while maintain satisfactory profit margins.

Buying shares is a bet on the management skill of the managers.

The alternative is buying a percentage of revenues or a royalty. Revenues are a measure of customer satisfaction. The greater the satisfaction the greater will be the revenues.

It is easier to evaluate the probable demand for a product and to predict a trend of revenues, taking into consideration the universe of potential customers than to predict per share profitability for any company, Royalties are the better way of both investing in and financing of privately owned companies.

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