**Question #50298, Management, Other**

*Assume that you are an investment analyst. Describe and evaluate the rules of thumb employed by you to establish benchmark price- earnings multiples.*

The first benchmark is: $\text{Benchmark Price}_1 = (\text{Benchmark Price} - \text{to} - \text{book ratio}) \text{ x Book Value}$

The second benchmark is: $\text{Benchmark Price}_2 = (\text{Benchmark Price} - \text{to} - \text{earnings ratio}) \text{ x Earnings}$

The third benchmark is a combination of the previous:

$$\text{Benchmark price}_3 = \text{Benchmark Price}_1 + \text{Benchmark Price}_2 = (\text{Benchmark Price} - \text{to} - \text{book ratio})\text{x Book Value} + (\text{Benchmark Price} - \text{to} - \text{earnings ratio}) \text{ x Earnings}$$

The weights “Benchmark Price-to-Book ratio” and “Benchmark Price-to-Earnings ratio” are multiplies that apply to book value and earning of the company.

These weights could be estimated and can be used to predict prices. And they differ for different companies and industries.