Financial ratio trend analysis of jp morgan chase finance essay

Through the calculation of liquidity ratios of JP Morgan Chase for the last four quarters, it can be seen that the company is in a good position to meet its current liabilities. The current, quick, cash and net working capital ratios over the four quarters show a positive trend and more or less are in healthy positions. Only the operating expense ratio of the company shows an odd trend as compared to other ratios, the operating income in each quarter is not able to meet operating expenses of that quarter and continues to show growing trend in each quarter, a considerable issue if not met properly can raise short term debt & financial costs and affect risk ratings of company.

Asset utilization ratios provide measures of management effectiveness. The four quarter ratio for JP Morgan shows a moderate standing of the company and the assets to equity ratio shows a healthy value. Although this ratio decreased through the quarters of 2009 but first quarter of 2010 showed improvement.

Asset utilization ratios are especially important for internal monitoring concerning performance over multiple periods, serving as warning signals or benchmarks from which meaningful conclusions may be reached on operational issues.

Profitability Ratios

The ratio most often used and considered by those outside a firm are the profitability ratios. Profitability ratios provide measures of profit performance that serve to evaluate the periodic financial success of a firm.

Return on assets (ROA) measures how effectively the firm's assets are used to generate profits net of expenses, this ratio shows stable values through the four quarters. Return on equity (ROE) measures the net return per dollar invested in the firm by the owners, the common shareholders. The quarterly ratios shows a very moderate return but is almost consistent with slight movements. Other ratios are also stable and consistent whereas the earnings per share ratio shows a declining trend in year 2009 & 2010 whereas the annual ratio shows an improvement describing a healthier standing.

Debt Utilization Ratios

These ratios of the company shows riskier standing of the company as it has highly leveraged its self from debt. These ratios shows steady variation through the quarters whereas the interest coverage ratio of the company is healthy by standing around 1. 4 through the quarters.

Market Values Ratios

Managers and investors are interested in market ratios, which are used in valuing the firm’s stock. The price/earnings ratio, is one of the most heavily-quoted statistics concerning a firm’s common stock and for JP Morgan this ratio is strong, healthy and stable through the quarters of 2009 and imporving in 2010 reaching 52. Other market ratios are also stable and dividend payout ratio and earning per share staying around $0. 8 also show a healthy spread over the four quarters.

Section C

Comparative Financial Analysis of the company compared to the industry performance.

Liquidity ratios are close by industry performance values and thus represent JP Morgan’s ability to compete in the market at highest ability. As regarding the profitability ratios the industry averages are relatively higher than JP Morgan’s performance depicting caution for JP Morgan to work on deriving better outcomes for the shareholders. The debt ratio of the company in comparison with industry ratios also suggests careful management of risk and leverage by company as they are also exceeding industry levels. Market ratios are somewhat lying close by the industry averages and show a coherent trend with industry. Overall, when comparing JP Morgan Chase standing in industry it does require reducing its leverage level and improving profitability so as to make the company a healthier investment opportunity for shareholders.

Section D

SWOT ANALYSIS for JP Morgan Chase & Co.

Strengths

J P Morgan Chase & Co is one of the most successful business service firms in the United States. JP Morgan Chase is a business company with $ 1. 2 trillion in assets and about $ 106 billion in shareholders equity which shows its strength as a financial institute.

One of the oldest business services firms in the world & operates both banking and non-banking subsidiaries

Said to be the 3rd largest banking institution in the United States.

Operates on the national as well as international level.

Market share is not restricted to just one region or country.

Superior reputation; knowledge to attract and keep its personnel and the attractiveness of their products to their consumers

J P Morgan Chase & Co signed a $5bn Outsourcing agreement with IBM.

It also formed a merger with Bank One Corp. to encourage self-sufficiency and cost reduction by employing a do-it-yourself approach.

Weaknesses

The IT infrastructure is not sufficient in maintaining their systems in their business operations.

Heavier workload for existing employees may decrease productiveness

Job losses of Employees on the restructuring develops employee de-motivation

Opportunities

The outsourcing agreements that the company undertakes could make it more competent by resulting in cost reduction and increasing quality.

The agreement with IBM and other leading companies would create significant value for clients, shareholders and employees.

The merger with Bank One led to the accomplishment of a large retail banking presence. Therefore, helps in increased capacity to manage its large business infrastructure.

Bringing IT backwards in-house from IBM would assist in fixing the slummy economics of J P Morgan Chase & Co.

Threats

The company faces threats from number of competitors because of operations in over 50 countries, both globally and regionally.

The fact that IBM could supply its services for numerous companies of the size of J P Morgan Chase & Co and hence, increase their competitiveness.

Employees having to do additional work, having salary reductions and re-application processes for their jobs could cause the men to be de-motivated and retrograde productivity.

The possibility of newborn firms entering into the business affects competition, not only a firm's present rivals pose a threat to the business alone.

A danger of substitutes exists that the JP Morgan Chase's customers might find less expensive and hence, their product's demand is affected by the price change of a substitute products.

Section E

- Is there a well defined code of ethics or code of conduct?

Yes the company has described its code of conduct and ethics, which describes their integrity and reputation as depending on their ability to do the right thing, even when it's not the easy thing.

The Code of Conduct is a collection of rules and policy statements intended to assist employees and directors in making decisions about their conduct in relation to the firm's business. The Code is based on their fundamental understanding that no one at JPMorgan Chase should ever sacrifice integrity — or give the impression that they have — even if they think it would help the firm's business.

The purpose of Code of Ethics is to promote honest and ethical conduct and compliance with the law, particularly as related to the maintenance of the firm's financial books and records and the preparation of its financial statements.

- Is there evidence of continued and repeated emphasis by the Board of Directors or the CEO, of the importance of ethical conduct to the corporation and its business ventures?

Yes the business Principles as described by the company shows their repeated focus and intention to make JP Morgan culture and practices ethically vibrant. The CEO's word on ethical conduct of company also supports constant important given to employees to build a healthy, vibrant company that treats people with respect and creates opportunity. At JP Morgan everyone counts, and supported by one another. Above all, it means doing what is right for the company and the customer, even if unpopular decisions are made and near-term rewards forgone.

Their strive to create a more inclusive work environment that draws on and develops the best talent. Building a diverse and inclusive work environment requires effort and perseverance, which is why they make inclusiveness and diversity an integral part of how they manage the company.

To build a strong, vibrant company, one that stands the test of time, will eventually benefit not only shareholders, but everyone JP Morgan touch. It is what enables to give back to our communities. The greatest source of pride, however, is employees, who contribute tremendous amounts of time and talent to worthwhile causes around the world. The long tradition of volunteerism continues with thousands of employees participating in hundreds of volunteer efforts.

- What processes are in place (if any) that make it safe and easy for employees or other interested parties to report ethical lapse?

From the Business Principles described by the company's website, it can be seen that the company maintains a performance balance scorecard approach with the help of which it monitors and evaluates the efficiency of their core processes. This depicts that they have managed an internal system which can easily help employees and other interested parties to report any ethical lapse in their processes.

Section F

Decisions

Would you place a personal deposit of one million dollars or more in the publicly traded stock of this company?

Placing entire one million currently would not be a healthy decision because keeping in mind the market position and analysts' views at msn money and Forbes, investing moderately in the company would be a wise decision and thus one million would be a very heavy amount at stake.

Would you invest $500, 000 in the debt (bonds) of this company?

Yes, as debt bonds are secured investment , considering the payout of the company and interest coverage ability this investment may prove to be fruitful.

If you were a member of the Board of Directors of a bank and you sat on that Bank's Credit Committee, would you grant a one million dollar line of credit for Overnight or Term Federal Funds to this company?

Yes, As the company has a stable position which is evident from its profitability and market ratios. The debt risk standing of the company is high but that is to an extent of set by the company's interest coverage ratios.