

8 Facts You Must Know Before Investing

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It's crucial to investigate your investments before you commit your hard-earned dollars. *During a strong economy, you might find it easy to pick profitable investments, but without adequate research, you're likely to struggle during more challenging economic circumstances.*

Getting the most important facts can help you quickly determine if a potential investment is worthy of additional research.

Consider these facts regarding any investment opportunity:

- 1. How much risk are you willing to accept?** The greater the risk, the greater the potential profits. How far into the future are you planning to invest? Do you need the money back from your investment at the end of the year, or in 25 years? What will the money ultimately be used for?
- 2. How does the company make money?** By understanding this simple fact, you're in a much better position to make intelligent decisions regarding the viability and outlook of the firm.
 - It's challenging to invest in a company you don't understand. This is the first step to gaining that understanding.
- 3. How well is the company doing?** Have the earnings been increasing each year for at least the last few years? What is the debt-to-equity ratio? Price-to-earnings ratio? Perform the necessary due diligence to determine the financial stability and profitability of the company.
 - *Beware of buying into any hype that has driven a stock to an unjustifiably*

high price.

4. What does the future look like? Accurately determining the future prospects for the company might be the most important issue. Will customers continue to need the company's products well into the future? Is the company in a position to thrive for at least the next few years?

- All companies must eventually evolve, but evolution also provides opportunities for mistakes to occur. The ability to be profitable while maintaining the status quo is attractive.

5. Who is running the company? Very few private investors have the ability to meet individually with the executive team of a corporation. However, there are ways to investigate the CEO and his team. It's easy to find the names of the relevant people. A quick search online will provide the details of their pasts.

- How long have they been with the company? How long did they stay at their previous positions? How successful have they been in the past? What happened to the corresponding stock prices during their tenures?

6. Who are the primary competitors? *Any profitable market niche will have competition.* How does your potential investment stack up among the competition? Which is best positioned for the future? Which company has the best management team? Which company has been most successful over the last several years?

7. Does this investment provide a level of diversification from your current investments? Financial experts tend to support the idea of diversification to protect against large losses. Consider the amount of diversification you require and determine if this investment helps to achieve that goal.

8. Could the money be better spent? Investing in stocks, bonds, or anything else is a questionable strategy if you have credit card debt at 19% interest hanging

over your head. Think about how the money can best be used before making a traditional investment. Paying off debt can be a more effective alternative.

Collecting a few facts can make investing decisions more effective. Most investors fail to gather crucial information to maximize their returns.

Treat investing like a part-time job, rather than a form of gambling. Buying stocks or bonds shouldn't be akin to purchasing a lottery ticket. For your best results, know the important facts before choosing any investment.