

8 THINGS TO CHECK BEFORE Investing in a Company

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There's plenty of information on how to research a potential stock investment. But most of the information pertains to the financials. ***If checking a few numbers were sufficient, we'd all be wealthy investors.*** The numbers only provide an indication if further research is warranted. There are several other things to consider in addition to the various financial ratios.

Ask yourself the important questions before investing your money:

- 1. How much cash does the company have?** A company with healthy cash reserves can weather short-term problems. A company with little cash doesn't have much of a cushion to absorb disaster. Pay attention to how much cash a company has and how much money it owes to its lenders.
- 2. Does the company have a competitive advantage?** Coca-Cola has a secret recipe and a strong brand. A drug company might have several patents that won't expire for several years. What advantage does the company you're investigating possess?
- 3. Is the company profitable?** Some companies that never make a single dollar in profit can be lucrative investments. However, they are few and far between. ***A company with growing profits will enjoy an increase in share price eventually.*** Know how much the company profits each year. Are those profits increasing or decreasing?
- 4. How good is the management team?** A great management team has the potential to turn a company around. A weak team can pull a great company into

the gutter. How long has the current management team been in place?

- If the team is new, research the background of the executives. You might be surprised by what you uncover. You're looking for a solid track-record of success in similar situations. Know the work history of each executive.

5. Is the company becoming arrogant? *Overconfident companies become lazy and spend their money poorly.* Ideally, a company only spends money to make more money. Overconfident companies begin spending money on things that don't add to the bottom line, like a new corporate headquarters or unnecessary trips.

6. What is the future for the industry? For example, a brick and mortar video rental store might have been a great investment 20 years ago. It wasn't a good investment five years ago, because that business model is nearly dead.

- Will technology or the movement of operations overseas harm your company's future? What do you expect to see in the industry over the next 10 years?

7. Does the company have room to grow? *Smaller companies often have more opportunities to expand than larger companies.* Does the industry have room for growth?

- For instance, the soda industry has been shrinking steadily for quite some time. The company's profit margin trend is one indicator to keep in mind.

8. How does the competition look? Who are the main competitors? Do any of the competitors have a significant advantage? It's a mistake to only consider the quality of the company that interests you. You wouldn't bet on your favorite football team without considering the quality of the competition that week. Do the same with your investments.

It's important to weigh your investing decisions carefully. ***Most of us spend more time***

researching a vacation than we do researching our investments. An investment shouldn't be like purchasing a lottery ticket. It's not a gamble. It's your best decision based upon careful research.

A trip to Hawaii might be more interesting, but a few wise investments can pay for a lifetime of trips to tropical locations. Research your potential investments carefully before reaching a final decision.