



The Smart Way to Pick Stocks

8 things that professional stock investors know about investing that could change your life

The fact is that most people shouldn't try to pick stocks to outperform the market. It's well known that even smart people who spend time researching companies rarely do well in investing. However, if you who like the idea of finding great companies that you can buy and hold, this list will help you get started. Most of the numbers and ratios can easily be found online at a site like Yahoo Finance.

1. Is the company earning money? It may sound very basic, but lots of companies have no profits. Even if their stock has gone up, ask yourself if they can sustain it. Look at the "price/earnings" ratio.
2. Does the company have a lot of debt? Just like it's hard for you to feel financially free if you have student loans, credit card debt, owe money to your in-laws, and have a mortgage, it's tough for companies to maintain too much debt. They end up having to use earnings to service the debt rather than to pay you a dividend or invest in further growth.
3. Is the company truly special? Some firms join the fray of a popular industry and ride the wave for a while, but if they don't innovate, they'll fall into the abyss with companies like AOL, MySpace, Netscape, Blackberry, PalmPilot, and MapQuest, etc.
4. Can you buy the stock at a "discount"? Just like you look for a good deal when you go shopping, look for companies with a depressed stock price. If you had a gazillion dollars, would you buy the whole company?
5. Does the company pay a dividend, and is that dividend sustainable?
6. Do you know the company and what it does? Have you used their products, gone to their stores, spoken to their customer service department?
7. Has the stock become the darling of analysts, of the media, or the guy sitting next to you on the bus? Those aren't reasons to buy.
8. Can you stand the volatility of the stock?

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Date of show: 08/02/2018