Stocks

8 *things you need to know about...*

1.

Business vs. Stock?

A stock is a piece of ownership I like to call a "piece of paper" which represent ownership. One of the best "papers" you can own is the same company owned by Bill Gates. The ability to have a transferrable ownership is one of the beautiful things about stocks. Stocks are pieces of paper that are sold daily on an auction called the stock exchange. The value of stock on a daily basis is based on what everyone in the auction thinks the stock is worth and has nothing to do with what the company is doing. Stocks can change price very rapidly based on the markets perception.

2.

Sometimes Bigger Isn't Always Better

From an investing standpoint, sometimes large companies with big market caps have trouble getting their stock price to go up, regardless of the execution of their business model/plan. They can consistently deliver growth and earnings, the stock price may not go up. This happens for several reasons: people expect good performance from companies like GE or P&G, therefore they tend to ignore good news. Another reason is the sheer number of shares outstanding. The supply is sometimes so large, capital appreciation is difficult. This is the opposite for smaller stocks. The bottom line is size matters.

3.

Earnings

Earnings are important, but the quality of earnings can be just as important. You want companies that have strong operating earnings. Earnings that are generated by their core business and that can be repeated and grown. Be careful of earnings that are generated by one time events or by accounting changes; such as a sale of an asset or a onetime royalty payment.

4.

Valuation

The ultimate goal of stock investing is to determine the value of stock (present/future) and then purchase that stock at or below that value. There are countless metrics for determining value, Price/Earnings, Price/Book Value, etc. There is no one certain formula for determining a value. In certain industries, more weight is given to a particular metric, than in another industry. For example, when looking at REITs cash flow is the most important and closely considered metric (price/FCF, Debt/FCF, etc). Also the stage of a company will greatly influence how it is valued. High growth companies will be compared to a totally different set of benchmark ratios than a non-growth company. Be aware of what you are looking at and why, just because one company has a higher or lower metric than the other it doesn't mean its cheaper.

5.

Dividends	Consistent paying of dividends is a sign of a strong company. Also look for companies that have a history of increasing their dividend (growth rate). Dividends can also be viewed as payment for waiting. They are taxed at 15%.

6.

Debt	The important thing is how much debt a company has relative to its assets. Also, be aware of debt service costs. How much does the company pay in interest each year? Earnings and dividends can go up and down, but companies have to pay their bills. The average rate the company has to pay to borrow money can also give some clue as to the financial strength. Just like people, the higher your credit quality the lower the interest rate.

7.

Management	This can be one of the most important things to look at. Look for companies that have stable long tenured managers. Excessive changing of executives is always a red flag. Also look for track records. If a CEO has led other companies to greatness, its worth looking at their current company.

8.

Insiders

There are many reasons for an insider to sell stock. They may be buying a house, paying for a child's education, etc. There are also 10b5-1 plans for insiders now where they sell stock on set schedules no matter what (this helps alleviate insider trading allegations). However, there is really only one reason to buy a stock. You think it's going up. Look for insider buys. This site can help: **http://www.nasdaq.com/reference/ownership.stm**. You can use the same link to see which large shareholders or institutions own the stock. Follow the experts.