

Key Points to consider before investing in common stocks

- **Never invest in any company before you've done the homework on the company's earnings prospects, financial condition and competitive advantage position**
- **Before investing one should ask that – Does the company have a management of unquestionable integrity? It is very important for the management to have integrity, good corporate governance, driven & passionate about their business. The management should constantly look to add value for the shareholders.**
- **Invest in a company where business is recurring like pharmaceutical, FMCG, Cigarettes etc. Why take chances in investing in risky businesses when there are so many steady businesses around.**
- **One key factor in analyzing before investing is to figure out whether the company is nearing the end of its expansion phase. A company present in 10% of the country has far different prospect than a company present in 90% of the country.**
- **The question that we need to ask before using multiples like P/E or P/BV Ratio is – What are the fundamentals that determines at what multiple a firm should trade? And the key fundamentals to consider are**
 - a) Expected Growth Rate**
 - b) Equity Risk**
 - c) Return on Equity**
- **The company that gets 25 to 50 percent of its topline from one single customer is a red signal. Because you never know if the customer moves back into backward integration or start getting its supply from some other company. And also since it is a major customer, it has got a lot of bargaining power which adversely affects the company's top line.**
- **Take advantage of what you already know. Take advantage of the businesses you already understand. Look for opportunities that haven't been discovered by Dalal Street – companies that are off the radar.**

- **You don't need to make money in every stock you pick. Six winners out of 10 in a portfolio can produce a satisfying result. This is because in the long run the pluses from the winners will overwhelm the minuses from the stock that don't work out.**

Remember – The Stock Market demands conviction as surely as it victimizes the unconvinced.

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