

Financial FITNESS

Should you buy that stock?

By Tom Rauchegger, Co-Founder of Cramer & Rauchegger, Inc.

Last month I attended a dinner party and overheard someone telling a group about a hot stock tip. The party goer stated confidently that the stock was a sure bet and a “no can lose” investment. You have heard that before, right? When I was asked to comment on the stock I decided to ask the “stock guru” the same questions everyone should ask themselves before buying a stock.



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Tom Rauchegger (left) & Scott Cramer

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What does the company do? Warren Buffett famously stated that he doesn't invest in what he doesn't understand. Do some internet research and check out the company website to get more information on the services the company provides or the products they produce.

Is the company profitable? Read the quarterly and annual earnings reports to check out how much net income the company reported in both dollars and earnings per share. Many people got hurt investing in technology companies that never made a profit. Do you want to invest money in an unprofitable company?

What is the company's earnings history and outlook? A quick scan of older news stories and company's past quarterly statements may answer the question if the company has a history of steady earnings growth or not.

How expensive (valued) is the stock? This can be done by calculating the price-to-earnings ratio of the stock. The P/E of a company can be used to compare with other stocks as well as the historical P/E's of a sector or index. The price of a stock may also come down to pure supply and demand and the perceived value.

Who are the company's competitors? Companies do not operate in a vacuum. For every Coke there is a Pepsi. Investors should know where their company stacks up versus the competition. Does the company own the biggest market share or is the company a small, but growing niche player in the sector?

Who runs the company? Unlike professional money managers, individual investors do not have the ability to drop by a company's headquarters and chat with management before making an investment decision. That is no excuse for not researching the company's executive team, their background

and leadership style. The leadership ability and ethical decision making of management can make or break a company.

How clean is the company's balance sheet? The long term investor should read over a company's balance sheet verifying if the company is straddled with debt, has positive changes in inventory levels, is spending on research and development, etc.

Have you read the Company's 10-K and 10-Q Annual reports? The 10-K is the company annual report filed with the SEC while the 10-Q are quarterly reports. These reports will keep you updated on all of the important company financials.

Is the company's competitive position sustainable? The stock flipper looking for short term gains may not need to answer this question, but for the long term buy and hold investors it is a must.

I am sure that I did not liven up the party asking those questions (I did get "the deer in the heads light look" a couple of times), but I probably did save a few people from making a poor stock purchase. Remember, when you purchase a stock you are actually purchasing

ownership in the company. Ask yourself what kind of company you want to own and if you want to base your purchase decision on a tip you got at a party or on some factual based information.

For more information please feel free to contact us at Cramer & Rauchegger. You can reach us by phone at 407-645-4433; e-mail at info@cramerandrauchegger.com or visit our company website at www.cramerandrauchegger.com. Cramer & Rauchegger is located in Maitland.

Founded by Orlando natives Scott Cramer and Tom Rauchegger, Cramer and Rauchegger Inc. is an independent advisory firm that specializes in retirement management, estate planning and wealth management for high net worth clients who are close to or currently in retirement.

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