



THE NYSE
FINANCIAL FUTURE CHALLENGE

How to Research a Company for Investment - Be a Detective!

Everyone is a bit different when it comes to how they decide what to invest in but most people look at the same kinds of “indicators” to judge if they think it is a good company and a good time to buy.

Buy What You Know:

A good place to start thinking about what you might want to buy is to think about what you already know. Entertainment, food, toys, sports equipment, clothing, health supplies, are all a good start for thinking about who makes the products you use.

Make a list of companies who make the things you buy – or want to buy!

Study Basic information about the company!

Look for clues about a company’s long-term financial health to help you make decisions on what might be a good investment.

- 1) Examine the balance sheet and income statement to try and judge the company’s financial strength.
- 2) Look at earnings history and growth rate.
- 3) Look at its products and where they are in the market

Start your investigation with a company’s annual report.

This will tell you how the company is doing and what the current condition is. You want to know if it is healthy and if it is making money – sort of like your annual doctor’s visit, the report looks at overall health.

Pay close attention to the balance sheet which shows the “at the moment” financial health. It shows you the value of all the stock and the amount of profits that have been reinvested.

Of course, you also want to know how much income is coming in and is being reinvested in the company’s health. You can find that in the income statement!

What to Look For!

A company that has a high return on equity, a low debt-to-equity ratio and, hopefully, the steady ability to grow earnings (earnings per share) each year might be a good investment.

Research Companies Activities:

1. List 3 specific interests or hobbies (This is the WHAT YOU KNOW!)
2. For each company, list 3 things you buy relating to that interest or hobby.
3. For each item, list 5-10 places you might buy that item, companies that make the item, or companies that might supply materials for that item.

When you are done, you should have a list of 5-10 companies that are involved with producing or selling things relating to what you already know.

Here are two quick examples from the BKFK family:

Sarah is really into Twilight by Stephenie Meyer. She might list this as one of her interests. From there, she would list 3 related things:

1. Books
2. Clothing
3. Movies

And then some related companies who might be selling or manufacturing these things:

1. Amazon.com (might sell books and DVDs)
2. Spencer Gifts (sells t-shirts)
3. Borders (sells books)
4. Little-Brown (publisher of Twilight)
5. Summit Entertainment (produced the movies)

Now Sarah should start looking into these companies. Since she knows that New Moon is coming out soon, what might that do to various stocks? Would it be a good investment in the company who produced the movies? What about in stores that might sell the new clothing?

Declan is really into Star Wars. He might list this as one of his interests. From there, he would list 3 related things.

1. Games
2. Clothing
3. Party Supplies

And now some companies related to these products:

1. Legos
2. Party City (sells Clone Wars birthday party supplies)
3. Dark Horse Comics
4. Toys R Us (toys of course!)
5. eBay (reseller of all kinds of Star Wars collectibles)

Now Declan should start looking into these companies. He knows that Clone Wars cartoon is very popular - what might that do to various stocks? Would it be a good investment in the company who airs those cartoons? What about the toys being made? Have they already made MOST characters and maybe won't make more or are there tons more toys to make?

Your turn!

Write up a list of things you know and can learn about the company. Is it making money? Are its stocks rising or falling? What was its value last month? Do you know about any new products or services that may be coming up?

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