



2 Things That Should Be on Your Stock Checklist

Description

One of the greatest threats to investing success is our emotions. Human beings aren't wired to manage the highs and lows of the stock market in a logical manner. Therefore, our emotions can cloud our judgement, which can lead to costly errors

A common emotional error is getting caught up in the market hype instead performing thorough research before buying a stock. A specific example of this is the tech bubble in the early 2000s. Investors were caught up in emergence of the internet and didn't want to miss out on this "exponential growth." People were pouring money into companies with little to no earnings, which eventually led to a market crash.

A simple way to prevent these potential pitfalls is by using a stock-picking checklist. A checklist creates a systematic approach to researching stocks and provides reminders of the most important factors to consider before buying shares in a company.

Here are two points that should be on every investor's checklist.

Dividend history

For dividend stocks, the distribution history can provide a clear picture of the company. Investors should look for companies that were able to maintain or even raise their dividends during down markets. If a company has cut its dividend in the past or has high payout ratios, the company may not be operating within its financial constraints, which could lead to more issues down the road.

One company with a fantastic dividend history is **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)). The company has raised its dividend 43 consecutive years; therefore, investors have reason to believe the company will preserve and grow its yield for the foreseeable future.

Management's track record

The tone from the top can have a trickle-down effect on an entire company, therefore, it's critical that an ethical and disciplined management team is at the helm. Investors should also look for

management teams that have a significant portion of their wealth tied to the company. This will help ensure that management's and shareholders' interests align and increase investors' chances of significant returns over the long term.

Fairfax Financial Holdings Ltd. ([TSX:FFH](#)) is a company with a first-class management team in place. CEO Prem Watsa has generated an average annual stock price return of 18.6% over 31 years! In addition, this billionaire CEO only receives a salary of about \$625,000 while a large portion of his wealth is tied to the company. Therefore, investors can take comfort in knowing Watsa will do his best to generate market returns over the long term.

Foolish bottom line

There are obviously many things to consider before buying a stock, but beginning with these two points is certainly a step in the right direction. A stock checklist will help ensure you remain objective and keep your emotions in check; therefore, I recommend that every stock picker uses them.

For those about to Fool, we salute you!

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1. Dividend Stocks
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