

Why it Doesn't Mean Much When Someone Tells You They Own a Stock

Description

At Motley Fool Canada, we're required to disclose that we own shares of stocks we talk about. However, what exactly does that mean to you?

Long ago, I thought that if a writer of an article about a stock was a good



buy. However, that's not necessarily true.

Here are some questions to ponder:

- When did the writer buy?
- What's their cost basis?
- Why do they own the stock?
- What's their exit strategy? Is it a short-term trade or long-term hold?
- What's their [risk tolerance](#)?

The writer's investment horizon and risk tolerance are probably different from yours. Moreover, you don't know why they own the stock in question. So, if the stock falls, the writer might be able to hold on, but you might not be able to because you don't know why they own the stock.

A writer might own **Amazon.com, Inc.** ([NASDAQ:AMZN](#)), which has done very well as a short-term and long-term investment. Shares of Amazon bought 10 years ago have grown more than 18 times for an annualized rate of return of roughly 34%. Even an investment bought one year ago has appreciated more than 70%!

It doesn't mean much that I own the shares. Sure, I like the company and its growth potential, but for investors looking to invest new money, they have to determine if Amazon is a good buy today.

I own the stock for its high growth potential, but a retiree might care less about growth and more about income. Retirees might feel more comfortable owning a regulated utility, such as **Canadian Utilities Limited** ([TSX:CU](#)), than Amazon because of the more predictable nature of Canadian Utilities.

Canadian Utilities offers a safe ~4.3% yield, and the stock should experience less downside than most

other stocks in the event that the market crashes, which we know will happen again.

You might be looking to invest your money for the next five years to save enough for a down payment of 20%, so you won't have to buy the mortgage default insurance, which would save you money in the long run. The [rate of return](#) that you need to achieve for your financial goals will probably be different from the writer's.

Investor takeaway

When someone tells you they own a stock, find out more why they own it. If the reasons they own it fit with your own beliefs, you can consider the stock and buy it if it's a good value.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:CU (Canadian Utilities Limited)

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