Why Investors Should Always Do Their Own Research Before Buying Stocks

Description

Investing is not an easy task and often requires collecting a lot of information. And while there are many sources of information on the internet that you can use, the problem is that sometimes that data can not only be biased and misleading, but it could also be completely wrong.

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A great example of that is what happened to **Shopify** (TSX:SHOP)(NYSE:SHOP) when investors sold the stock after a scathing report came out criticizing the company's business model, alleging that it was nothing more than a get-rich-quick scheme.

The problem is that the information was from a short seller that did not disclose his intentions and whether or not he would have benefited from the stock dropping in value. At the Motley Fool, however, we disclose such holdings and allow our readers to get an honest picture of our analysis.

Too much focus on headlines, not enough on substance

The Shopify example shows how easily people can be misled based on a headline or claim that has little or no substance behind it. After all, if Shopify were a scheme, you would expect sales to stall. Instead, the company continues to grow at incredible rates every quarter.

Earnings reports can be just as misleading. Outside of sales and net income, much of what happens in between those line items gets little to no mention. The problem is that some of the most important and most telling details of a company's performance are found there.

Aphria (TSX:APH), for instance, recently reported its earnings, which showed strong sales growth and a positive net income. One thing you may have missed in the headline, however, is that the only reason the company turned out a profit was due to its investments, as it posted a significant loss from its operations.

Websites can sometimes have out-of-date financial information

Another problem is that when doing research, you can sometimes find conflicting or inaccurate information. I've seen more than one instance where two websites presented the same set of financial data differently.

What can be even more frustrating is when data isn't updated in a timely manner. **Corus Entertainment** cut its dividend months ago, yet multiple investing websites still show the stock as paying a dividend yield of over 20%.

Bottom line

Purchasing an investment is not a small decision, and investors should do their own due diligence before buying a stock. It may be a bit more time consuming, but in the end, it could prevent you from making a mistake or relying on a faulty assumption.

One way to do your own research is to just go to the company's website, as it should have the most up-to-date information available for potential investors. Failing that, an investor relations person can be helpful in obtaining information as well.

There are lots of resources available to help you make an educated decision, but you shouldn't just rely on one source of data for your information or neglect to do your own analysis.

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1. Investing

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1. Editor's Choice

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2. TSX:SHOP (Shopify Inc.)

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