Long-Term Investors: 3 Important Questions to Consider That Could Save You Thousands

Description

When researching companies, most investors will have the routine they stick to and the general information they are looking for to decide if a company is worth an investment and whether or not its stock is trading at an attractive price.

Although everyone has a different process, and there are numerous metrics you can look at, or company facts to help you understand the business, there are the main things all investors will look at. These include current operations, plans for growth, price to earnings, and other forms of valuation.

There are, however, some lesser-known questions to ask that could help you to spot something you may have otherwise missed and will help you to make a more informed decision.

Who are its customers?

The first question to ask is who the company's customers are and, to add to that, what is the level of need the consumers have for the company's product or services?

This is an important question to look at because the company in question could have the strongest operations in the world, but if the consumers can't afford it or don't necessarily need it, that will be a big issue for the stock.

The level of need is in regard to how discretionary the product or service is, as consumers will prioritize needs such as food and shelter over discretionary items such as luxury goods or vacations.

Knowing about the economy that the company serves is huge though, whether it's a specific region or a certain type of people or business.

For example, **Nutrien** is one of the best stocks in North America; however, when its main customers, those in the farming and agriculture industry, have their operations affected by the cyclicality of commodities, this will inevitably affect Nutrien and can't really be avoided.

How much liquidity does the stock have?

This is something that many investors overlook but is crucial to know beforehand. When dealing with large-cap and well-known stocks, most of the time, investors can easily forget and take for granted the natural liquidity many stocks have.

The liquidity is what gives the stock its value, so investing in companies with lower levels of average volume is inherently riskier.

This is because if negative news hits the stock, or even if someone with a large number of shares wants to sell without any buyers, the stock will fall heavily. This is why many of the less-liquid names are so volatile.

How much debt does it have and what's its enterprise value?

When thinking about the price of a company or the cost to an investor, most of the time investors are concerned about the company's market cap and the corresponding metrics that go with it, such as price to earnings.

They worry only about what the stock will cost them in cash on the day they are buying the stock, rather than what they are actually buying. This can be extremely dangerous, especially if you don't pay attention to the company's debt level at all.

The enterprise value encompasses the market cap as well as the company's net debt to give investors a more accurate idea of how much you are paying for the company.

After all, when you buy your share of the company, you naturally become responsible for your share of the debt.

This makes enterprise value a much better metric to consider, as the company's assets are most likely funded by a combination of equity and debt.

Bottom line

Making investments is a big decision and should be treated as such. It's important that do you research and really think about any possibilities that could come up and any potential information you want to know to get the full story before you pull the trigger on any investment.

It may seem daunting, but it could save or earn you thousands of extra dollars on your investment, just by going the extra mile and knowing everything there is to know about your companies.

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Date
2025/08/23
Date Created
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