Investing Basics: The Importance of “Floating Stocks”

Description

We are living in a world of volatility. It’s a volatile world both outside your home and inside your finances. Investors are looking for any way to keep their money safe. That means digging into the basics of investments and hoping to find an answer.

Some of you may have heard of the term “floating stocks,” but don’t know exactly what it means. Here we will dig into what floating stocks are, and also why they are important to consider when investing. You need as little volatility in your life as you can muster these days. So let’s dig into why floating stocks can help you manage some of that volatility.

What *are* floating stocks?

Floating stocks are the number of shares available to trade in any particular stock. So, if there are a low number of float stocks, there are a low number of shares, and vice versa. It’s fairly easy to calculate as well. You simply subtract the closely-held shares and restricted stock from the firm’s total outstanding shares. Closely held stocks are the majority common shares owned by either an owner or stakeholders, and restricted stock are the unregistered shares of ownership dealt out to executives or directors.

When you have the calculation, you’ll see whether a stock has a large or small share float. The rule is the lower, the more volatile. That’s because fewer shares means that it’s likely harder to find a buyer or seller of the stock. The number can of course change over time as new shares are added, some are bought back, or major shareholders buy or sell the stock.

What you want to find is a high number of floating shares by figuring out the percentage that floating stocks take of total shares. So if a company has 50 million shares,but 84% are held by owners, stakeholders and the like, that’s only 16% of shares available to buy.

Where you may have seen this recently is with **Aurora Cannabis Inc.** (TSX:ACB)(NYSE:ACB). The company did a stock split, as its share price reached $1 per share. The company did a reverse stock split, taking its shares and combining them to bring the share price higher. This resulted in lower floating stock, showing the volatility of this company.

Is it worth the risk?

Floating stocks are definitely worth looking at before risking buying a volatile stock. In the case of Aurora, you would absolutely want to look at the company's floating stock before deciding whether to buy it. Using this as part of your investment arsenal means you'll be able to have a simple way of seeing just how much management believes in its company.

During this period of volatility, make your life a little easier by using the floating stock method to navigate the waters. There are a lot of stocks out there near all-time lows. With another crash on the way, it's a great time to look at floating stocks and combine it with your research before deciding what to add to your watch list.

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