



Canadian Investors: How to Research Stocks to Buy

Description

One of the most important aspects of investing is the research component. Any time you are thinking of buying a Canadian stock, you need to do extensive research. Doing proper due diligence of investments can save you from making horrible mistakes, and often find you some of the best long-term investments.

Research goes beyond just the company's operations and catalysts for the stock to grow. It's a crucial component of investing, even if someone has given you several reasons to buy a stock.

But if someone else has already done a bunch of research and are recommending you buy the stock, why do you have to do your own research?

If you've ever wondered this or what exactly you're supposed to research, here are the top four questions to consider the next time you buy a Canadian stock.

Do you understand how the business makes money?

The first and most important question you need to answer is how the business makes money. This goes beyond a broad description of the Canadian stock. What are the company's goods or services? Who are its target customers?

Other considerations include the company's main costs to produce their product and how they acquire their customers.

Understanding all the intricacies of the business is crucial to understanding how it works. This is important not only ahead of buying a stock but even while you continue to own the stock. This way, if macroeconomic shifts impact your business, you can recognize it early on and act accordingly.

What is the stock's history?

It's also crucial to have a good understanding of the stock's history. Learning how long it has been in operation and the types of headwinds it has faced in the past are great questions to ask first.

This way, you'll get a good understanding of the most significant risks to the company. You'll also find out how badly the Canadian stock was impacted and what it did to respond to the adversity.

It's also important to have a good idea of what the business has done in the last few years leading up to its position today.

What's the industry like?

As much as the business is important, so is the industry. The company can be the most dominant in its industry, but if that industry is on the decline, the investment likely won't make sense.

You should consider what the competition is like. Are there a lot of small companies? Or are there just a small number of very large companies?

You should also be aware of what other industries it relies on. For example, the coronavirus pandemic causing stay-at-home orders shouldn't impact a Canadian pipeline stock like **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)).

However, the stay-at-home orders impacted demand for oil, which affected the amount of oil being produced, which ultimately led to Enbridge's business being impacted.

This is a great example of understanding how each industry works, so you can identify risks or advantages ahead of the rest of the market.

Is the value of the Canadian stock worth it?

Once you have a good understanding of the business and still have an interest in investing, it's time to start considering the Canadian stock's value.

Based on all the research you've done up until now, it should be much easier to decide if the investment is worth it.

For a stock like [Enbridge](#), you would soon see that while its business stayed robust through the pandemic, the stock has sold off significantly.

You may also notice that it's currently trading 20% below its 52-week high and offering a dividend yield of 7.4%, combining to give investors [significant upside](#) over the next year.

Bottom line

Any information you can gather on a company before you invest will be extremely helpful in determining the Canadian stock's value as well as risks to watch.

Good research can save you from making a bad investment. Moreover, it can help to uncover

exceptional investments. So, make sure you spend an adequate amount of time researching your next stock. Years from now, you'll be glad you did.

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