



Part 1: A Beginner's Guide to Researching Stocks

Description

[Stock market investing](#) starts with choosing the right investment instrument and savings account, picking the right stock, and allocating a certain percentage of your portfolio to each asset. The most difficult part is having the discipline to invest regularly, not selling out of panic, and monitoring your shares periodically. Monitoring is not just checking the stock price. It involves researching the stock and reading the company's financial statements to ensure it is on track to achieve its goals.

Now, there are two ways to research a stock:

- The bottom-up approach
- The top-down approach

In this article, I will discuss the bottom-up approach and cover the top-down approach in another article.

Step one: Know how the company earns money

Peter Lynch once said, "Behind every stock is a company. Find out what it's doing." When you join a company, a course, or a school, you research it. Then why not do so for the stock you invest in? If you don't know how the company makes money, how will you be confident that its stock will grow your money? You will panic on every dip and sell the share and regret it later when it surges significantly.

You can save yourself from all this drama by reading about the company. You will get this information on the company's website, its annual report, and CEO interviews. And if all this is jargon for you, you can refer to Motley Fool Canada articles. Fool contributors break down the business world into simple English and help you make informed decisions.

In one of my [articles](#), I've explained how **Lightspeed** ([TSX:LSPD](#))([NYSE:LSPD](#)) earns money and its strategy to grow organically and through acquisitions. After reading about Lightspeed's business model, it was clear that the pandemic has acted as a catalyst and not a crisis. All I have to do now is monitor the stock and buy any dip.

Lightspeed is a point-of-sale platform that helps small- and mid-sized retailers and restaurants operate online and physical stores efficiently. Several factors drove the stock, like extended lockdowns, holiday-season shopping, reopening of stores and restaurants, any new acquisition, and better-than-expected earnings. As long as these factors prevail, you won't sell the stock on any correction.

You come to know all this when you understand the workings of the company.

Step two: Look at the company's financial performance

After reading about the company, you decide to invest in its stock, and this time, you are confident about your decision. But as I said before, stock picking is just half the battle won. You now have to devise an investment strategy and see if the stock fits in. No company remains the same all through its life. There are ups and downs in business, and a growth stock can become a defunct stock or a stable stock.

For example, **Facedrive** showed remarkable revenue growth as a ride-sharing company in 2019. It surged to new highs in 2020 with several acquisitions. But reality struck in the first-quarter 2021 [earnings](#) when its ride-sharing revenue dropped 95%, and all that was left of the company was food service. The earnings report shows how the company's operations have fared financially and helps identify the gaps. It helps investors and analysts revise their expectations of the company.

Lightspeed has continued to beat its earnings estimate since 2019, which makes me bullish on the stock.

Step three: See what analysts have to say about the stock

When you have done your research, read what other analysts and market experts have to say about the company. Their comments can help you understand the stock's performance compared to the industry and its peers.

Step four: Look at the stock price and investor sentiment

Lastly, always buy the dip, not the rally. Stock tends to correct after a significant bull run as some investors book profit. Look at the stock's Relative Strength Index (RSI) to understand if the stock is overbought (RSI above 70) or oversold (RSI below 30). Don't buy the stock when it is overbought, as a correction might follow.

CATEGORY

1. Investing
2. Personal Finance

3. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:LSPD (Lightspeed Commerce)

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