Article Side

Things to remember before investing in stocks by Annphilip

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The financial world is upside down. No one is able to predict what will happen next. As an experienced trader or as a new investor, you should consider several factors before buying a stock.

When to invest in stocks?

Check the market cap of the company â€“ Before investing in a company, you should check the market capitalization of it. The market capitalization of a company is nothing but the price of all outstanding shares of common stock multiplied by the price per share at that time. Market capitalization can be divided into three types. They are large cap, mid cap and small cap. By calculating the market capital of a company, we can know its size. When large cap companies will have market cap in the range of $15 to 200 billion, the small cap companies will have market cap below $2 billion. Higher the market cap the larger the size of the company and its returns.

Dividend yield â€“ We can check dividend yield by comparing the cash dividend per share to the market price of common stock. This will help to know how much return a share can bring. You canâ€™t expect dividend from all companies. Dividends will be paid mostly by large and established companies. And dividend yield can often change based on changes in stock price, more than the cash dividend per Share figure. It is better to avoid stocks of companies that have dividend yield below 3%.

Dividend payout ratio â€“ Try to buy shares that have high dividend yield and low dividend payout ratio. Dividend payout ratio is the amount of dividends paid to stockholders based on the total net income of a company. The one thing we should check when buying a dividend stock is the companyâ€™s consistency in paying dividends in the future. I think itâ€™s better to go for stocks that have dividend payout ratio below 50%. But there can be exceptions, and that will be based on external factors.

Dividend growth â€“ To get a consistent stream of income, it is better to focus on dividend growth stocks. By concentrating on dividend growth stocks, you can effectively hedge your income against inflation. The main reason behind this is that many dividend growth stocks tend to regularly increase distributions every year. So dividend growth is a major tool to measure the performance of a company. Investors can buy stock of companies that shows dividend growth and maximize their profit. Some of the companies that pay dividend for more than three times are Kimberly-Clark, Automatic Data Processing, or ADP and Sysco.

Improvement in sales â€“ Another key tool to measure the performance of a company is the sales growth. If a companyâ€™s sales show a consistent and solid growth, then we can say that company is growing. But itâ€™s better to avoid shares of companies that have more than 180% growth. Because those stocks will be usually overrated by the time and itâ€™s not advisable to buy at those rates.

Earnings Growth - This is another key tool to measure the performance of a company. When sales of a company go up, the earnings also show a good numbers. When a company gets more money, they will share it with its shareholders.

Companyâ€™s strength - As an investor, you should also know the different opportunities waiting for the company. You should be also capable of judging the companyâ€™s risk facing capacity and different opportunities for diversification.

I use my internet with connection from providers like FiOS Internet to check details about the company and its performance for a particular period or year. I also do online stock trading in my home PC.

Just remember this quote before investing in a company, if you canâ€™t understand in what you are investing, forget about it.

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