

Due Diligence

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Due diligence, what is it? According to a definition on investorwords.com due diligence is the process of investigation, performed by investors, into the details of a potential investment, such as an examination of operations and management and the verification of material facts.

Sounds easy enough right? Then why don't more of us actually employ due diligence prior to investing our hard earned money (or for the lucky ones, pocket change) into stocks. I mean, it must be a rather large issue if the BC Securities Commission is launching a whole public awareness campaign based on fraud and how to help investors avoid getting scammed, to read the press release click here <http://www.bcsc.bc.ca/release.aspx?id=4398>.

Investing on emotions....

It is so easy to get caught up in the hype, you see a stock rising and think, I must get in that and before you know it, you are along for the ride. What we seem to forget is that, what goes up, must (almost always) come down. The ride isn't all that fun when you ride it both up and then right back down to where you bought it from. The important thing to remember is to try and find the reason behind the spike in price. Investing in a company simply because you like the name of it or the stock symbol reminds you of something special, isn't really investing for the right reasons.

Now, how to execute that fancy due diligence stuff? Well, it really doesn't take too much time out of your busy day and should make you feel better about your investments or maybe even scare you off from investing all together. Some easy steps to take to decide whether a company is worthy of your dollars may include:

Website – see if the company has a website and visit it. Do you like what you see, does it make you want to rush to your brokerage account and purchase shares or do you shudder at how ugly and outdated it is? Is it easy to navigate and find the information you are seeking? Is the contact information easy to find and accurate? Does it contain any information on the company's management? In this day and age, not having a website may raise a red flag as this is the easiest way for any organization to communicate with its shareholders, both current and potential ones.

Contact the company – what does it hurt to drop them an email or if they have a toll free number, pick up the phone and give them a call. Does a human ever answer your call? Or do you just float around in the computer que wondering if anyone actually works there? Talking to the president of a company (or, more likely, somebody in investor relations) should give you a better idea of what the company is all about, what direction they are headed in and so on. One thing to keep in mind when communicating with a company though is beware of empty sales pitches and grand things coming out of someone's mouth that may never come to fruition. Go with your gut feeling here, if something is saying this

sounds too good to be true, odds are, it probably is.

Research the company – if there isn't any information on the company's financial statements or news releases on their website, visit Sedar to obtain this information. Take a look at the company's most recent financial statements and those for even the last year perhaps and read their news releases. Doing this research should give you some sort of idea of where the company stands financially, any future plans they may have that will benefit (or hurt) the organization, what they've done over the past year or more, etc. Do you feel there is any potential or is the company headed down a road you don't want to journey down?

Word of mouth – do you know of anyone who currently holds shares, or who has held shares in the company? Talking to them doesn't hurt, but don't forget to do your own research, don't invest simply based on what someone else has to say, it's very easy to get caught up in someone else's enthusiasm, so it's always good to take some time to do your own research.

Forums – there are a multitude of investor related forums/discussion boards on the Internet. Visiting these and asking questions of other forum members may be helpful to you, just remember the old adage, don't believe everything you hear and only half of what you read.

Watch and learn – maybe track the stock for a while prior to investing, see if you notice any trends that you could capitalize on and how news tends to affect/not affect the stock price.

These are a few of the techniques that fall under the umbrella of due diligence, in my world anyways. Everyone has their own tactics they employ for investigating a potential investment opportunity. The important thing is to actually employ them, if you don't you may be left holding the bag...the empty bag.

One must always remember there are no guarantees when it comes to investing in the stock market, no sure winners all the time, risk is there and always will be. Perhaps if you do your own due diligence, you will be able to avoid some of the losers, heck, you may even make some money on your investments and you can take all the credit.

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