

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



How to Evaluate Investment Opportunities

Investment opportunities come and go. Success comes from recognition of an opportunity and accurate analysis. It is in learning how to evaluate investment opportunities that investors find long term prosperity. Here are some thoughts on how to evaluate an investment from an article in *Forbes*.

Successful investing boils down to buying assets at a discount to intrinsic value. The greater the discount, the more likely the investment will perform. Benjamin Graham, the father of value investing, called this “margin of safety.” The concept is simple in theory and extremely challenging in practice, with the valuation process anything but straightforward.

The problem, as the author notes, is that any two reasonable people may see an investment opportunity differently. With that thought in mind he discusses intrinsic value.

As just one participant in the market, here’s how I evaluate a company’s intrinsic value.

Owner Earnings = Net Income + Non-Cash Expenses (Depreciation, Amortization, Depletion) + One-Time Charges – (Maintenance Capital Expenditures + Working Capital Needs)

This step is essential in how evaluate investment opportunities but it can be difficult. The problem is that predictions based on available evidence can vary greatly. Thus one investor will look at a company and see solid long term earnings and another will see stagnation or decline.

Security versus Growth Prospects

If you want to follow Buffett rules one and two (1-don’t lose money and 2-don’t forget #1) you want a company with a moat around it. In investing terms a moat is a solid competitive business advantage. This advantage virtually guarantees above average returns on investment for a long time. Companies with moats include Coca Cola, Apple and Exxon. But IBM used to qualify so there is no guarantee that a secure stock remains a secure stock forever.

Unfortunately solid companies are commonly not growth companies. Microsoft in its early days was not a secure stock but a home run hitter for growth. If you are looking for homeruns you need to find companies with new technologies, patent-protected and management with the ability to capitalize on their advantage before the rest of the world catches up. You need to decide on whether you want security or growth of a combination in order to know how to evaluate investment opportunities.

The Time Value of Money

What do you do if you inherit \$10,000, \$100,000 or \$1,000,000? You could just put the money in the bank in CD's that roll over at intervals and sleep soundly. A 5 year CD gave you about 10% interest in 1985 and about 5% by 1995, 3.5% by 2007 and about 2% today. Investing in real estate or stocks is more risky but can be more profitable. Picking the right investment can be critical. Most investors choose to diversify their stock portfolio in order to average out risk. The ultimate approach is an index fund that tracks the S&P 500. The S&P 500 has grown by an average of 10% a year since its inception in 1928. And in the last 5 years the S&P 500 has doubled which is a 10% per year per year growth rate. The time value of your money is more in the stock market than in a CD. *Investopedia* looks at the average annual return of the **S&P 500**.

Investors can easily mirror the index's performance by investing in an S&P 500 Index mutual fund or exchange-traded fund. For an individual's investment success, when he chooses to enter the market makes a significant difference. The stock market performed very well for an investor who bought stocks between 1950 and 1965, but the market was nothing but a continuous 15-year disappointment for an investor who entered in 1965. The market's best sustained performance was from 1983 to 2000.

More and more investors have gone the index fund route in order to take advantage of gains in the stock market while averaging out the risk of individual stocks. This approach greatly reduces the difficulty in evaluating investments.

Educational Resources

**Click the links below to get your
FREE training materials.**

Free Weekly Investing Webinars

Don't miss these free training events!

<http://www.profitableinvestingtips.com/free-webinar>

Forex Conspiracy Report

Read every word of this report!

<http://www.forexconspiracyreport.com>

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

<http://www.candlestickforums.com>

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.