Four Questions You Should Ask Before Investing in Stocks

Investing wisely demands due diligence. While there are certainly thousands of variables affecting any investment decision, narrowing down your focus with some broad questions can help you get started. In August of 2003, I encouraged investors to start with these four questions. I wrote:

> ***Ask These Four Questions***
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> *As I've written, the first four questions I ask about a company concern dividend increases, share decreases, debt reductions, and cash accumulations. Many managements decry each of my benchmarks, pleading that the reinvestment of cash is best for shareholders long-term; that actual share increases, as well as the buildup in debt, bring in more capital for expansion; that cash can't possibly be a productive asset. You and I both know that there are management teams that win with such a strategy, but there are far more that do not.*
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> *There is ample historical evidence that investors are better off with dividends. Evidence suggests that managements are far less successful in reinvesting cash than is portrayed. As for debt, Microsoft has been pretty successful sans debt. And, by the way, has a cash horde of over $46 billion (not a typo).*
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> ***Scrap Growth Stocks***
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> *If you stick with my four-part formula, you will bypass most of the hot growth stories. I am not a fan of the growth-stock concept. I'll take my four-part mini formula any day. I can assure you with great confidence that any company that increases its dividend year after year, steadily reduces its number of shares outstanding, regularly reduces its debt load,*

> *and accumulates a healthy cash horde is doing a lot of things right. This progression indicates conservative management. It’s the type of investment that makes sense for seasoned, conservative investors likely to have a strong affinity for my basic investor tenet: diversification and patience built on a framework of value and compound interest.*

Learn more about my dividend focused investment philosophy in the monthly client letter of my family run investment counsel, Richard C. Young & Co., Ltd. You can sign up for the letter by clicking here. It’s free, even for non-clients.