Educated Investing

Finding Ideas for the Individual Investor

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If you are at Stern to become the next Steve Cohen or Julian Robertson then you can safely ignore this article. Also, you are exempt from reading this article if you are one of those who catch themselves watching the TiVo-ed version of Fast Money every night instead of spending quality hours at Half Pint. But, if have some sort of affiliation with Stern and you still rely on your barber/hair-dresser or your super to give you the next hot investment tip for your PA then A) Shame on you! B) Read this article and C) Who’s your barber?? j/k.

There are many effective ways to find good investment ideas. Listed below are some easy to use sources.

The Financial News
It goes without saying that everyday, major (and minor) newspapers and TV stations across the world run stories about the economy and individual companies. Some, such as The New York Times and Financial Times, mainly write articles for informative purposes. Others, such as Barron’s, are specifically dedicated to investment ideas for the individual investor. And nearly every newspaper, including local papers from your hometown, will include the occasional column dedicated to personal investing. Similarly, there are many television channels – CNBC, Bloomberg TV, Fox Business, etc – dedicated solely to financial news that can also be a source of ideas, assuming you can block out the screaming heads and focus on the issues at hand. Finally, there are countless websites and blogs dedicated to investing. Investment ideas can come from all of these sources. Some are obvious – “Why You Should Buy Amazon NOW!” (N.B., this is a fictional example of a headline and not a recommendation to buy Amazon). For other stories, you may need to digest the main topic and then take additional steps on your own. For instance, an article about farmers in Iowa switching to biofuels could lead you to investigate into what companies are leaders in the biofuel industry. But caveat emptor, you should never take an investment idea from a source and immediately act on it without performing your own due diligence. Taking just 20 minutes to look at a company’s financials, read articles about the company, and evaluate the opinions of professional analysts covering the company can save you heartache – and $$$!

Stock Screeners
There are also many stock screeners available that you can utilize quite easily. Stock screeners are tools that investors use to filter stocks based on the investor’s criteria of choice. These criteria can be nearly anything – geographic headquarters, market cap, trading multiples, sector, where revenue is earned, accounting ratios, growth rates, etc. For instance, you may want to invest in an oil and gas company based in the United States that has a price to earnings ratio of less than 10 and that has grown earnings
better than 15% for the last five years. The screener will either generate a list of companies to research, or it may tell you that no companies fit that criteria and you need to make adjustments to your search. Some robust – and free – screeners are available online and run by Yahoo! Finance, Google, Morningstar, and MSN Money, to name just a few. (Tip: If you have somehow managed to avoid taking the outstanding Silber / Damodaran classes at Stern, www.investopedia.com is a good source of explanation for investment terminology.)

Everyday Life
Where do you shop for your clothes? When you travel, which airline do you prefer to fly and at which hotel do you usually choose to stay? Which company makes the make-up that you absolutely cannot live without? Who makes the personal music player that you cannot leave your apartment without? Does your brother rave about the car that he just bought? No matter what the answers are to each of these questions, the odds are that there is a publicly traded company behind each one. Often, the best investment ideas come from personal use or first-hand accounts of products. I remember buying my first iPod in the fall of 2004 at the Apple store in Soho and being blown away by both the store itself and my new iPod. At the time, shares of Apple were about $26. However, I decided to wait before purchasing shares… and subsequently missed out on over a 700% return. The lesson is that ideas can come from anywhere in our daily lives; it is just a matter of keeping your eyes and ears open when opportunities present themselves before you. In fact, Peter Lynch, one of the most successful investors of our time, popularized the “invest in what you know” principle in his bestseller One Up on Wall Street, a bible for individual investors.

The suggestions mentioned above were for idea generation, not investment research. Before you go buying the next ten tickers you see flashing on TV, a few simple rules of engagement:
- Making money is harder than losing money! There is no shortcut for doing homework on your potential investments.
- If you have cold feet, play with fake money in mock portfolios to test your thinking over market cycles.
- Diversify! If you are not comfortable putting your sign-on bonus in one or ten companies, buy sector/broad market ETFs.