

>: 3 Basic Questions to ask when investing in a Private Company

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In response to the question "What are the first three questions you should ask before investing in a private company?", here is a proposed answer from a beginner investor.

I've only been investing for about 2 years now, but from what I have observed there are a few basics that anyone should ask of a company in determining whether it will succeed.

First, I would ask if the company has a **PRODUCT** or **SERVICE** that is in **DEMAND**. For instance, a company that sells frisbees might not profit as much as say a bank lender, a mobile phone service provider or even food and clothing retailers. Sure this is a relative question, but we have to face the fact that some niche markets simply won't profit as much as others.

Secondly, I would look at the **COMPETITION**. Say an entrepreneur were start a company in general discount retail, and have a store that sold food, clothing, and medicine at low prices to the customer. This means that this start-up would be going against the likes of Walmart, Target, and Kmart. The likelihood of this company surviving in the long-term, and not being bought out by the likes of the above is quite slim. The company should offer something a bit different or original to have an edge over the competition.

Last but certainly not least, I would ask "Does this company have the potential to be successful and profitable ten years from now?"

I admit, I am a long-term investor. But I think this question can encompass so many different aspects that it is the most important overall question to ask. For instance, does the management of the company have sufficient (and honest, i.e. the downfall of Enron) business management skills to last for the long-haul, despite recessions and dips in the economy? How are the employees treated, is there a high turnover rate (with the theory that if the workers are happy, they will have more interest in whether the company succeeds or not)? Is there enough cash flow, and if not, how does the management plan to generate more?

While I haven't been in the business of investing long, I really hope this is at least on the right track in what to consider when investing. Happy Trading everybody!

cafe_addict283