

Guide to Choosing the Right Stocks

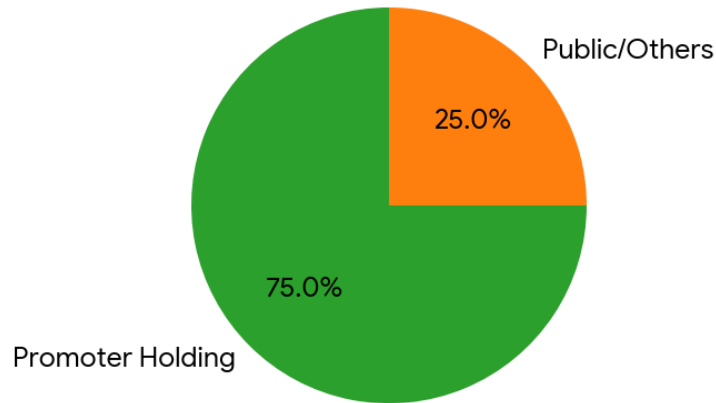
Choosing the right stocks is one of the biggest challenges faced by both beginners and experienced investors in the stock market. During major market fluctuations, the prices of many good stocks often drop significantly. While this means stocks are available at attractive prices, investing without proper knowledge can lead to massive financial losses.

When we go to a shop to buy vegetables or clothes, we pay only after repeatedly checking the quality, price, and reliability of the shop. However, when investing in the stock market, many make hasty decisions based on hearsay and rumors. Anyone who wishes to become a successful investor or trader must understand certain fundamental principles.

This educational note explains six key factors to consider when selecting a stock:

1. Check the Promoter Holding

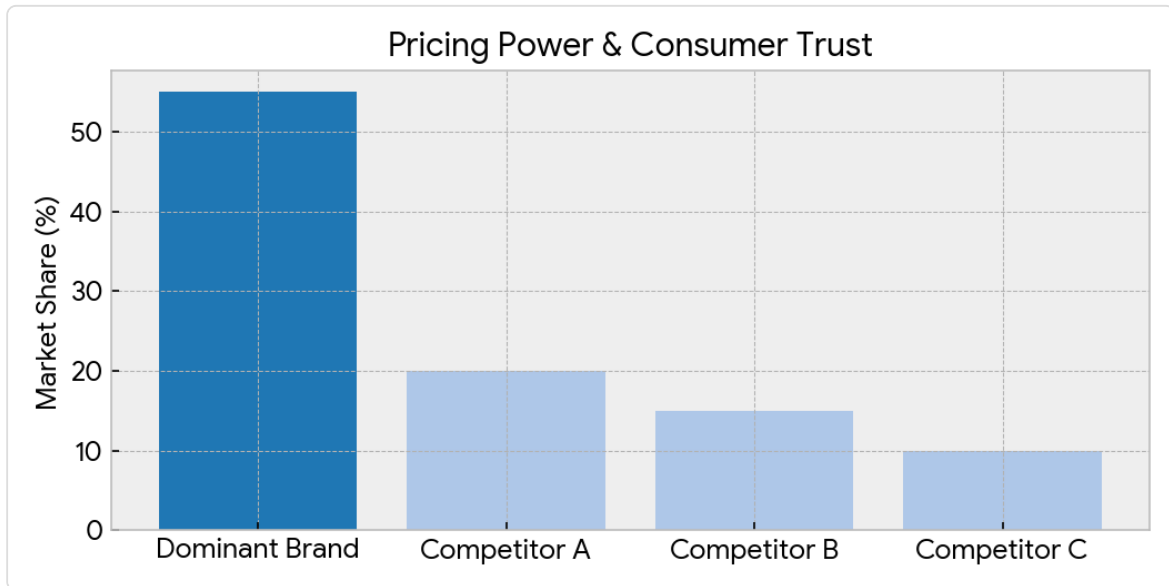
Sign of a Secure Investment: High Promoter Holding



The first thing to examine is the promoter holding, or the ownership share in the company.

The owners are the ones who best understand the true internal financial situation and future prospects of the business. If we see a local merchant quickly selling off all their goods at low prices to close up shop, we easily guess that the business is in deep financial trouble. Similarly, in the stock market, if promoters are selling off their shares—even when the stock price has dropped to an attractive level—it is a massive red flag. Instead of accumulating more shares, selling them off is evidence that something is wrong within the organization. Therefore, it is always safer to avoid investing in companies where promoters are actively dumping their shares.

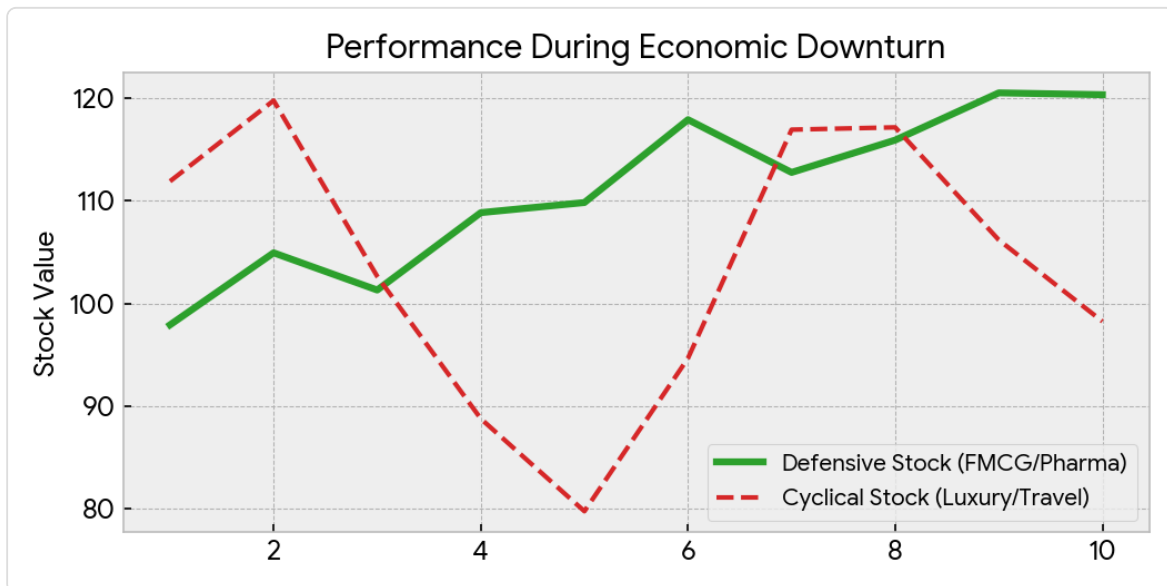
2. Choose Companies Whose Products Have Become Brands



Look for companies whose products are so established that the brand name has become synonymous with the product itself.

In our daily lives, there are certain products we ask for by their brand name. For instance, when buying salt, people specifically ask for "Tata Salt," or when changing vehicle tires, they specifically demand "MRF Tires." Although salt and tires are ordinary commodities, these companies have become synonymous with those products due to their superior quality. Such companies hold immense brand value and command strong consumer trust. Because customers are unlikely to abandon these brands even if prices are raised, these companies can maintain strong market competitiveness and high profitability.

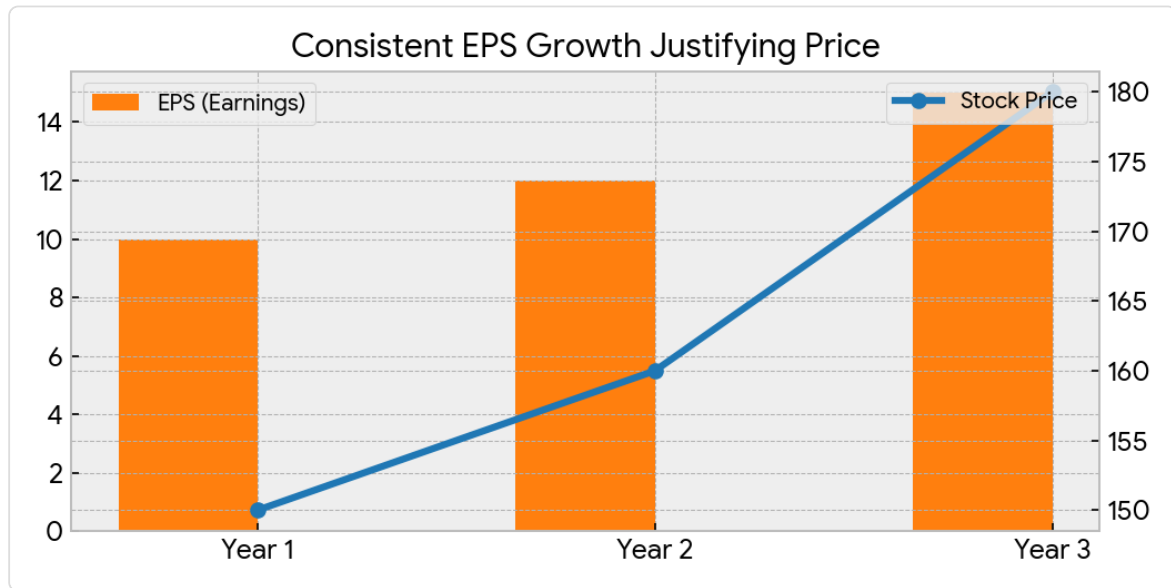
3. Focus on Defensive Companies Making Essential Products



Look out for "defensive" companies that manufacture essential goods and can withstand economic recessions.

When a family faces financial constraints, the first things they cut back on are new movies, luxury clothing, and vacations. But if someone falls sick, can they avoid buying medicine? Can they stop buying soap or groceries? Absolutely not. Pharmaceutical companies and FMCG (Fast-Moving Consumer Goods) companies provide products that people simply cannot avoid in their daily lives. Even if there are economic hardships or market crashes in the country, the businesses of these companies will not be significantly affected. Choosing companies that manufacture such essential goods is highly beneficial for secure investing.

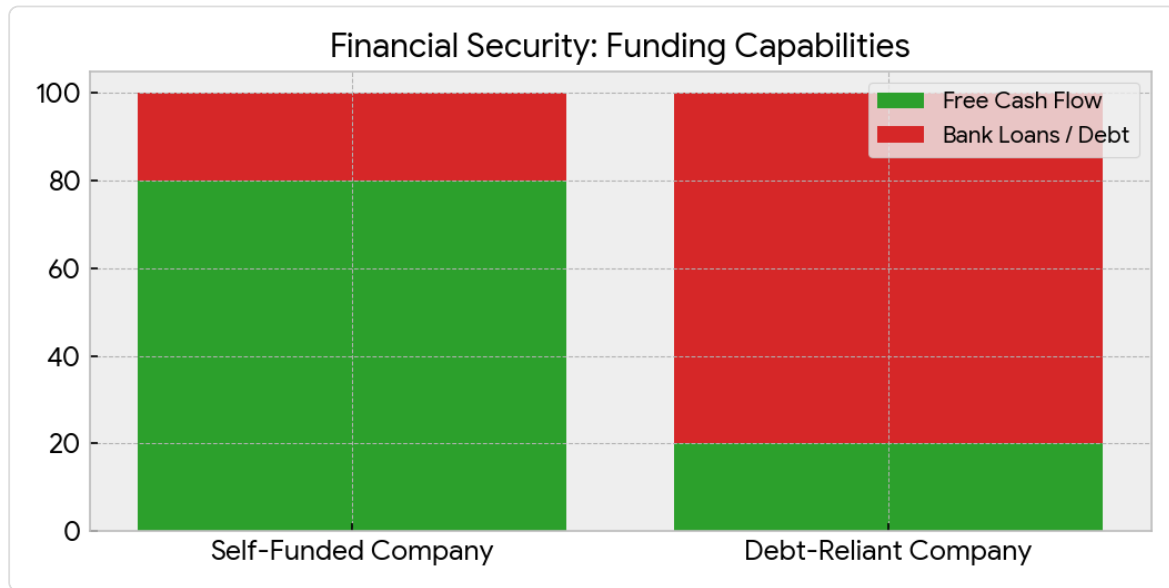
4. Examine the Valuation of the Company



The fourth step is to check the correct valuation of the company.

Imagine a person spends ₹2 Crores to build a commercial building. That investment can only be considered profitable if the building generates at least ₹2 to ₹3 Lakhs in monthly rental income. Otherwise, there is no adequate return on the invested capital. The stock market works the same way. Before buying a company's stock, you must accurately calculate the profits it makes and its Earnings Per Share (EPS). Do not blindly pay a high price just because you recognize the company's name; invest only after evaluating the actual revenue and profit the company generates.

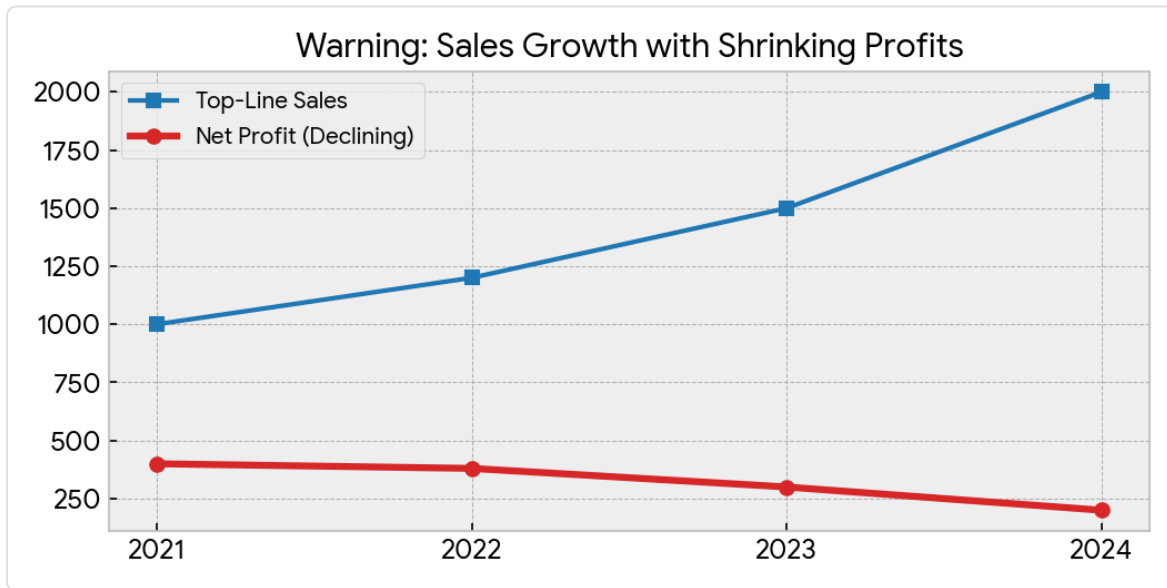
5. Find Companies with Self-Funding Capabilities



Look for companies that have the capacity to fund themselves.

When a family builds a new house or expands a business using savings from their own income—without taking on debt—they achieve financial security. On the other hand, those who borrow huge amounts at high interest for expansion face severe debt traps if their income drops. In the stock market, you must check whether a company has enough Free Cash Flow to implement new projects and expand its business. Companies that can grow using their own profits, without overly relying on bank loans and debt, will survive safely even during crisis periods.

6. Prioritize Actual Profit Growth Over Sales Growth



Finally, give more importance to actual profit growth rather than just sales growth.

For example, suppose a merchant sells a product for ₹1,000. The manufacturing cost is ₹400 and the advertising cost is ₹200. In this scenario, the merchant makes a profit of ₹400. However, if market competition increases and the merchant has to spend ₹400 on advertising (instead of ₹200) just to maintain sales, the sales volume remains the same, but the actual profit drops to ₹200. From the outside, the business looks massive, but the cash in hand is shrinking. Therefore, do not get attracted merely by top-line sales figures; ensure that the company's net profit is consistently increasing year after year.

This is a simple study note that is equally useful for long-term stock market investors and short-term swing traders. Following these scientific screening methods instead of making emotional decisions will help significantly reduce investment risks. By conducting proper study and analysis before investing, anyone can achieve financial success in the stock market.