

# Holiday Tip or Trap? What to do before investing!

Picture this! There you are enjoying a great dinner and downing a few libations with everyone gathered at the dining room table having a great conversation. Everyone is laughing, happy and filled with great joy! But you can feel it about to happen.

At just that moment, when you think you can make it through the night without talking about finance or investing, it hits like a great snow storm. Your uncle, cousin or friend blurts it out “I got this great stock tip, you should invest too!” “I made a fortune.”

Does that sound familiar? Do you cringe when you hear that statement? Many people do as there are individuals that care more about money than you do. Anyone that makes money in the market can't wait to tell their friend and family. But don't fall into the trap!

This is common talk around the holidays. The last time this “great tip” was given, you made the investment the next day, however, that choice tanked with you still holding that investment just wishing a return to even. Or you didn't invest and you feel stupid because they are letting you have it for not investing. So what do you do?

The best way to handle these situations is to first congratulate him or her. Tell them how wonderful that is and then it is time to ask questions. The moment calls for a learning experience.

Start by asking; why did you invest in that company? What business are they in? Have they hit the high point? What is the book value? How does it fit into your portfolio? What is the earning history? What is the P/E ratio? How does the economy effect the profits? How much debt is the company carrying? What type of investor are you, conservative or aggressive? How did you hear about this company? Where do you get your research information? Are you still invested in it? Why not? When are you getting out? Lastly, did you ever invest in something that failed?

Once you have peppered them with those questions, now you are armed with information. Amazingly, these are the same questions that you should ask before making any investment. These same questions should be asked to every financial professional.

One of the worst mistakes that people make is not asking enough questions. The enthusiasm of the person talking about the “Great Tip” causes everyone to be emotional. Being emotional when investing is a really bad thing.

Investments should be picked without emotion. You want to have enough information to justify the transfer of your funds to another. If you don't understand what or why your investing in any company, then you shouldn't invest. And anytime you invest money, it should fit your invest personality and portfolio.

Investing is about making an educated guess. The great investors like Warren Buffett and Peter Lynch (to name a few) gather tons of information before making any investing decision.

So at the next party, sit back, relax and have drinks and just enjoy the conversation!  
Happy Holidays to all and best of luck in 2011!!