

25 STOCK RED FLAGS CHECKLIST™

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Warning Signs to Check Before
You Buy Any Stock

A Practical Guide to Avoiding Costly Mistakes
in the Nigerian Stock Market (and Beyond)



PROTECT
YOUR MONEY



SPOT RISK
EARLY



ASK BETTER
QUESTIONS



MAKE SMARTER
DECISIONS



INVEST WITH
CONFIDENCE

A MUST-HAVE GUIDE
FOR EVERY BEGINNER
INVESTOR



RED FLAGS

- ☒ Falling Profits
- ☒ Rising Debt
- ☒ Weak Cash Flow
- ☒ Poor Governance
- ☒ Unrealistic Hype
- ☒ Dividend Cuts
- ☒ Related Party Deals
- ☐ And More...

JAMES BALOGUN
KNOW MORE. INVEST BETTER. BUILD A BRIGHTER TOMORROW.

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Warning Signs to Check Before You Buy Any Stock

A Practical Guide to Avoiding Costly Mistakes in the Nigerian Stock Market and Beyond

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IMPORTANT NOTE

This book is for education. It does not tell you which stock to buy or sell. A red flag is a reason to investigate more carefully, not an automatic proof that a company is bad.

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INTRODUCTION

Red Flags Are Questions, Not Verdicts

A red flag is not a siren telling you to run away. It is a sign telling you to slow down and ask one more question.

That idea is important because investing is rarely black and white. A company can have one weak year and still be healthy. A company can borrow heavily for a sensible expansion. A dividend can fall because management is protecting cash. On the other hand, several small warning signs can join together and point to a much bigger problem.

This book gives you 25 warning signs to check before you buy a stock. It is written for the beginner who wants a simple way to avoid blind decisions. You do not need to be an accountant. You only need the patience to look, compare, and ask why.

In Nigeria, this habit matters. Listed companies publish financial information, corporate announcements and other disclosures. NGX also publishes compliance information, while the Securities and Exchange Commission warns investors to verify operators, avoid unrealistic promises and pay attention to risk. The information is there. Your job is to learn how to use it.

Think of this book as your second pair of eyes. The first pair sees the opportunity. The second pair checks what could go wrong.

THE RULE

One red flag means: investigate. Several connected red flags mean: investigate much more deeply. Never turn a checklist into a blind score.

CHAPTER 1

How to Use This Checklist

Use this book before you invest, while you are researching, and after you already own a stock. It works best when you have the company's latest annual report, recent quarterly results, investor presentations and official exchange announcements beside you.

Do not rush through all 25 items in five minutes. Start with the business. Then move to the numbers. Then management. Then price. If a warning sign appears, write down what you found and what you still need to know.

The goal is not to find a perfect company. Perfect companies do not exist. The goal is to understand the weaknesses you are accepting before you put money at risk.

A Simple Three-Step Method

- 1. NOTICE:** Something looks unusual.
- 2. VERIFY:** Check the company report, exchange notice or reliable source.
- 3. QUESTION:** Ask whether the issue is temporary, normal for the industry, or a deeper problem.

BEGINNER TIP

Never stop at a headline. If you read “profit fell 40%,” ask why it fell, whether cash also fell, and whether the cause is likely to continue.

CHAPTER 2

Business & Growth Red Flags

The first warning signs often appear in the business itself. Before ratios, ask whether the company is selling more, keeping customers and growing in a healthy way.

Red Flag 1: You Cannot Explain How the Company Makes Money

If you cannot explain the business in one or two simple sentences, you may not yet understand what you are buying. Complex businesses are not automatically bad, but confusion makes it harder to judge risk.

WHAT TO CHECK

Write down the company's main products or services, main customers, and the main way cash enters the business.

Ask yourself: What exactly is the customer paying for? Where does most revenue come from?

Your note: _____

Red Flag 2: Revenue Keeps Falling

One weak year can happen. A pattern of falling sales can mean customers are leaving, demand is weaker, competition is stronger or the business model is under pressure.

WHAT TO CHECK

Compare at least three to five years of revenue and read management's explanation.

Ask yourself: Is the fall temporary, industry-wide, or specific to this company?

Your note: _____

Red Flag 3: Profit Is Falling Faster Than Revenue

If sales are only slightly weaker but profit drops sharply, costs may be rising or margins may be under pressure.

WHAT TO CHECK

Compare gross margin, operating margin and net profit margin over several years.

Ask yourself: Which cost is growing faster than the business?

Your note: _____

Red Flag 4: The Company Depends on One Product, Customer or Market

Heavy dependence can make a business fragile. Losing one large customer, product line or market can hurt badly.

WHAT TO CHECK

Check segment information, major customer disclosures and geographic revenue.

Ask yourself: How much of the business depends on one source?

Your note: _____

Red Flag 5: Growth Looks Fast but Quality Looks Weak

Fast growth can hide problems when it is funded mainly by heavy borrowing, deep discounts or constant new share issues.

WHAT TO CHECK

Check how growth is funded and whether cash flow and profit are keeping up.

Ask yourself: Is the company growing stronger, or just getting bigger?

Your note: _____

CHAPTER 3

Profit, Cash & Accounting Red Flags

Profit is useful, but cash and accounting quality tell you whether the reported success is turning into real financial strength.

Red Flag 6: Profit Rises but Operating Cash Flow Stays Weak

Accounting profit does not always mean cash has arrived. A long gap between profit and operating cash flow deserves attention.

WHAT TO CHECK

Compare net profit with operating cash flow over several years.

Ask yourself: Why is cash not following profit?

Your note: _____

Red Flag 7: Receivables Grow Much Faster Than Sales

Receivables are money customers still owe. If they rise much faster than sales, the company may be collecting cash more slowly.

WHAT TO CHECK

Compare trade receivables with revenue and check ageing or impairment notes.

Ask yourself: Are customers taking longer to pay?

Your note: _____

Red Flag 8: Inventory Keeps Building Up

Rising inventory can be normal before expansion, but persistent build-up may mean products are not selling as expected.

WHAT TO CHECK

Compare inventory growth with revenue growth and read inventory notes.

Ask yourself: Is the stockpile planned, seasonal or a sign of weak demand?

Your note: _____

Red Flag 9: Large “One-Off” Gains Keep Appearing

A one-off gain can make profit look stronger even when the normal business is weak. If “one-off” items happen often, study them carefully.

WHAT TO CHECK

Separate operating profit from gains on asset sales, revaluations or other unusual items.

Ask yourself: What would profit look like without the unusual gain?

Your note: _____

Red Flag 10: The Auditor Raises Serious Concerns or Financials Are Restated

Auditor qualifications, emphasis matters or repeated corrections can point to reporting, control or accounting issues. They do not all mean fraud, but they deserve careful reading.

WHAT TO CHECK

Read the independent auditor's report and any restatement note.

Ask yourself: What exactly did the auditor question, and has management fixed it?

Your note: _____

CHAPTER 4

Debt & Balance-Sheet Red Flags

Debt can speed up growth, but it can also make a weak period much more painful. This section checks the strength of the company's financial foundation.

Red Flag 11: Debt Is Rising Faster Than the Business

Borrowing can help a company grow, but debt becomes dangerous when it grows much faster than earnings and cash flow.

WHAT TO CHECK

Track total borrowings, finance costs and operating profit.

Ask yourself: Can the business comfortably service this debt?

Your note: _____

Red Flag 12: Interest Cost Is Eating Too Much of Profit

A company can look profitable before finance costs, then have little left for shareholders after paying lenders.

WHAT TO CHECK

Compare finance cost with operating profit and cash flow.

Ask yourself: What happens if interest rates stay high?

Your note: _____

Red Flag 13: Short-Term Debt Is High but Cash Is Low

If large obligations are due soon and the company has little cash, it may need refinancing, asset sales or new capital.

WHAT TO CHECK

Check current borrowings, cash balances and maturity notes.

Ask yourself: Where will the repayment money come from?

Your note: _____

Red Flag 14: Shareholders' Equity Is Shrinking or Negative

Falling equity can reflect losses, large distributions or other changes. Negative equity is a major sign to investigate.

WHAT TO CHECK

Compare assets, liabilities and equity over several years.

Ask yourself: What caused equity to fall, and can the company rebuild it?

Your note: _____

Red Flag 15: The Company Keeps Issuing New Shares Without Clear Value Creation

New shares can fund growth, but they also reduce each existing shareholder's percentage ownership. Repeated dilution needs a clear reason.

WHAT TO CHECK

Check changes in shares outstanding and what new capital was used for.

Ask yourself: Did the new money create enough value to justify dilution?

Your note: _____

CHAPTER 5

Management & Governance Red Flags

Numbers come from decisions made by people. Good governance does not guarantee success, but weak governance can destroy a good business.

Red Flag 16: Management Changes Too Often

Frequent changes in CEOs, finance directors or key executives can signal instability, especially when explanations are weak.

WHAT TO CHECK

Review company announcements and annual-report leadership pages.

Ask yourself: Why are key people leaving, and what changed after they left?

Your note: _____

Red Flag 17: Related-Party Transactions Are Large or Hard to Understand

Deals with directors, major shareholders or connected companies can be legitimate, but they can also create conflicts of interest.

WHAT TO CHECK

Read the related-party transaction note.

Ask yourself: Was the deal fair, transparent and in the company's interest?

Your note: _____

Red Flag 18: Management Avoids Clear Answers or Uses Too Much Promotion

Strong leaders explain both good and bad periods. Constant hype with little detail can be a warning.

WHAT TO CHECK

Compare promises from old reports with what actually happened later.

Ask yourself: Does management report facts, or mainly sell a story?

Your note: _____

Red Flag 19: Financial Reports or Required Disclosures Are Often Late

Late reporting can be administrative, but repeated delays make it harder for investors to judge the company. NGX publishes compliance information on delinquent filings and other listing issues.

WHAT TO CHECK

Check exchange compliance reports and the company's filing history.

Ask yourself: Why are filings late, and is the pattern improving?

Your note: _____

Red Flag 20: There Are Repeated Regulatory or Listing Problems

Repeated breaches, enforcement actions or operating-below-standard notices can point to weak controls or governance.

WHAT TO CHECK

Check official NGX and SEC notices.

Ask yourself: Is this an isolated issue or a pattern?

Your note: _____

CHAPTER 6

Dividend, Price & Market Red Flags

A dividend can attract you. A rising share price can excite you. Neither should stop you from asking whether the payment or price makes sense.

Red Flag 21: The Dividend Looks Too Good to Be True

A very high dividend yield can come from a falling share price or a payout that may not be sustainable.

WHAT TO CHECK

Compare dividends with earnings, free cash flow and past payout history.

Ask yourself: Can the company afford this dividend without weakening itself?

Your note: _____

Red Flag 22: The Company Borrows Heavily While Paying Large Dividends

Debt and dividends can coexist, but borrowing more while paying out large amounts deserves a closer look.

WHAT TO CHECK

Compare new borrowings, free cash flow and dividends paid.

Ask yourself: Is cash being returned to shareholders while the balance sheet becomes weaker?

Your note: _____

Red Flag 23: The Stock Is Driven by Hype More Than Business Results

Excitement can push a share price far ahead of what the company currently earns. Hype is not a business model.

WHAT TO CHECK

Compare price movement with earnings, cash flow and official news.

Ask yourself: What changed in the business to support the new price?

Your note: _____

Red Flag 24: The Valuation Assumes Almost Everything Will Go Right

A strong company can still be a poor purchase if the price already assumes years of perfect growth.

WHAT TO CHECK

Compare valuation with its own history, peers and realistic growth assumptions.

Ask yourself: What return is left if growth is only average?

Your note: _____

CHAPTER 7

Nigeria-Specific Market & Regulatory Red Flags

Company research is only one side of investing. You must also check who you are dealing with and whether the investment channel is legitimate.

Red Flag 25: You Feel Pressured to Act Before You Understand the Investment

Pressure is a warning sign. SEC Nigeria warns investors about unrealistic or guaranteed returns, high-pressure offers, unclear products and unregistered operators.

WHAT TO CHECK

Pause. Verify the entity, source and investment structure before sending money.

Ask yourself: Why must I decide today? Who is regulated? What exactly am I buying?

Your note: _____

CHAPTER 8

The 25-Flag Master Checklist

Use this page as your fast first scan. A tick means “I found this warning sign and need to investigate.” It does not mean “sell” or “never invest.”

- ☐ 1. You Cannot Explain How the Company Makes Money
- ☐ 2. Revenue Keeps Falling
- ☐ 3. Profit Is Falling Faster Than Revenue
- ☐ 4. The Company Depends on One Product, Customer or Market
- ☐ 5. Growth Looks Fast but Quality Looks Weak
- ☐ 6. Profit Rises but Operating Cash Flow Stays Weak
- ☐ 7. Receivables Grow Much Faster Than Sales
- ☐ 8. Inventory Keeps Building Up
- ☐ 9. Large “One-Off” Gains Keep Appearing
- ☐ 10. The Auditor Raises Serious Concerns or Financials Are Restated
- ☐ 11. Debt Is Rising Faster Than the Business
- ☐ 12. Interest Cost Is Eating Too Much of Profit
- ☐ 13. Short-Term Debt Is High but Cash Is Low
- ☐ 14. Shareholders’ Equity Is Shrinking or Negative
- ☐ 15. The Company Keeps Issuing New Shares Without Clear Value Creation
- ☐ 16. Management Changes Too Often
- ☐ 17. Related-Party Transactions Are Large or Hard to Understand
- ☐ 18. Management Avoids Clear Answers or Uses Too Much Promotion
- ☐ 19. Financial Reports or Required Disclosures Are Often Late
- ☐ 20. There Are Repeated Regulatory or Listing Problems
- ☐ 21. The Dividend Looks Too Good to Be True
- ☐ 22. The Company Borrows Heavily While Paying Large Dividends
- ☐ 23. The Stock Is Driven by Hype More Than Business Results
- ☐ 24. The Valuation Assumes Almost Everything Will Go Right
- ☐ 25. You Feel Pressured to Act Before You Understand the Investment

COUNTING IS NOT ENOUGH

Five small red flags may matter less than one severe liquidity or governance problem. Use judgement. Look for connections, seriousness and whether management has a believable solution.

CHAPTER 9

From Red Flag to Research Question

Good investing is not about spotting a problem and panicking. It is about turning the problem into a question that can be checked.

For example, “debt is rising” is only the start. The next questions are: What was the debt used for? What interest rate does it carry? When is it due? Is cash flow growing fast enough to support it?

This chapter helps you move from fear to evidence.

Red Flag	What I Found	Source	What I Still Need to Know

Questions That Improve Your Research

- ☐ Is this problem temporary or structural?
- ☐ Is the same problem affecting competitors?
- ☐ Has management explained the cause clearly?
- ☐ Does cash flow confirm the profit story?
- ☐ Is the balance sheet strong enough to survive a weak year?
- ☐ Has this happened before?
- ☐ What would prove my current view wrong?
- ☐ What am I assuming about the future?
- ☐ What official document supports my conclusion?

CHAPTER 10

Your Final Review Sheet

Complete this only after you have done the research. The purpose is to summarize your own thinking, not to produce a mechanical buy/sell score.

Company name

Ticker

Industry

Current share price (date checked)

Why I am studying this company

Top three strengths

Top three red flags

Most serious red flag

What could reduce this risk

What could make the risk worse

Key number I must monitor

Next result/announcement I should watch

My research conclusion (in my own words)

APPENDIX A

Quick Annual-Report Scan

When you open an annual report, you do not have to read every page before you learn anything useful. Start with these places:

- 1. Five-Year Summary:** Look for sales, profit, assets, equity and dividend trends.
- 2. Chairman/CEO Review:** Read what management says changed and what it expects next.
- 3. Income Statement:** Check revenue, operating profit, finance costs and net profit.
- 4. Balance Sheet:** Check cash, debt, receivables, inventory, liabilities and equity.
- 5. Cash Flow Statement:** Check whether operations are producing cash.
- 6. Auditor's Report:** Look for qualifications, emphasis matters or going-concern issues.
- 7. Notes to the Accounts:** This is where important details often live: debt terms, related parties, contingencies and segment data.
- 8. Corporate Governance Section:** Review board structure, committees and governance disclosures.
- 9. Share Information:** Check shares outstanding, major holders and changes in capital.
- 10. Risk Section:** Compare management's listed risks with your own list.

APPENDIX B

Beginner Glossary

Annual report: A yearly report that explains the company's business, financial results and other important matters.

Auditor: An independent professional who examines financial statements and gives an opinion on them.

Cash flow: Movement of cash into and out of a business.

Dilution: Reduction in an existing shareholder's percentage ownership when more shares are issued.

Dividend: A payment a company may make to shareholders.

Equity: The value left for shareholders after liabilities are subtracted from assets.

Finance cost: Interest and related borrowing costs.

Free cash flow: A simple way to think about cash left after normal operations and necessary investment spending.

Inventory: Goods a company holds for sale or production.

Liquidity: How easily a company can meet near-term obligations, or how easily a security can be traded, depending on context.

Margin: Profit measured as a percentage of revenue.

Market capitalisation: Share price multiplied by shares outstanding.

Receivables: Money customers or others owe the company.

Related party: A person or entity connected to the company, such as directors, major shareholders or controlled companies.

Restatement: A correction or revision to previously reported financial statements.

Valuation: A way of judging what investors are paying compared with the company's earnings, assets, cash flow or other measures.

FINAL WORD

Slow Down Before You Put Money Down

The stock market will always give you another company to study and another price to look at. You do not have to rush because other people are excited.

Your advantage as a beginner is not knowing everything. Your advantage is being willing to pause and ask questions other people skip.

Use this checklist with the 8-Point Stock Filter™. One helps you find what is strong. The other helps you notice what may be weak. Together, they help you see a fuller picture.

Research cannot remove risk. It can help you understand the risk you are choosing to take.

Before you buy that stock, check the story, check the numbers, check the people, check the risks, and check the price.

SOURCES & FURTHER READING

Securities and Exchange Commission (Nigeria), Investor Education — investor education, market risks and informed decision-making. Accessed September 2026.

Securities and Exchange Commission (Nigeria), “Information for Harmed Investors” — investor rights and common warning signs such as unrealistic returns, pressure, unclear products and unregistered firms. Published November 27, 2023.

Securities and Exchange Commission (Nigeria), “Public Notice: Unregistered Online Investment Schemes” — warning on unregistered schemes and unauthorised investment advice. Published May 2026.

Nigerian Exchange Limited, X-Compliance Report — information on delayed filings, listing-standard issues, enforcement actions and other compliance matters for listed companies. Accessed September 2026.

Company annual reports, audited financial statements and official NGX announcements should be the primary sources for company-specific research.

PUBLISHING NOTE

Financial rules, company conditions and market data can change. Check current SEC Nigeria, NGX and company disclosures before acting on any specific investment information.