

BEFORE YOU BUY THAT STOCK

The 8-Point Stock Filter™

A Beginner's Guide to Researching and Evaluating Stocks in Nigeria

BUSINESS • FINANCIALS • GROWTH • CASH • PEOPLE • ADVANTAGE • RISKS • PRICE

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Important Note

This book is for education. It is not personal financial advice, a promise of profit, or a recommendation to buy or sell any named security. Stock prices can rise or fall, dividends can change, and you can lose part or all of the money you invest. Always check current company reports, market notices, and the status of any broker or investment platform before acting.

The examples in this book are mainly simplified or fictional so that you can learn the ideas without confusing an example with a recommendation. Where Nigerian market institutions are mentioned, the book uses information from official sources available at the time of writing. Rules, fees, platforms and market procedures can change.

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CHAPTER INTRODUCTION

BEFORE YOU BUY THAT STOCK

A simple promise: learn the process before you risk your money

Why I Wrote This Book

I wrote this book for the Nigerian who wants to invest but does not want to depend on rumours. You may earn a salary, run a business, be a student, or simply want your savings to work harder over time. You may already own shares and still feel unsure about what makes one company stronger than another. This book starts from that point.

The first thing I want you to know is that I will not give you a list of stocks and tell you to copy it. A list becomes old. Prices change. Management changes. Industries change. The economy changes. A better gift is a method you can use again and again.

That method is the 8-Point Stock Filter™. It helps you ask the same eight important questions before you decide whether a company deserves more of your attention. The aim is not to make you perfect. No investor is perfect. The aim is to help you move from guessing to thinking.

You Do Not Need to Be a Financial Expert

The stock market can sound like a club for people who speak big English. You hear words such as earnings, equity, market capitalisation, cash flow and valuation. The words can be strange at first, but the ideas behind many of them are simple.

You do not need an accounting degree to ask, 'Is this company making money?' You do not need to be an economist to ask, 'Are more customers buying from this business?' You do not need to be a banker to ask, 'Does this company owe too much?'

As we go, I will give you the proper financial words because they matter. But I will explain them in normal language first. Your job is not to sound smart. Your job is to understand enough to protect your money and make a more informed decision.

The Biggest Mistake New Investors Make

One of the biggest mistakes a new investor can make is buying first and researching later. A stock starts rising. People begin to talk. Someone says the company has 'big plans.' The beginner buys and only then starts asking what the company actually does.

That order is backwards. Research should come before the purchase. If someone asked you for ₦1 million in exchange for part of a private business, you would ask questions. What does the business sell? Does it make profit? How much debt does it have? Who runs it? What could go wrong? Buying through a stock exchange does not remove the need for those questions.

Why You Should Never Buy a Stock Just Because Someone Recommended It

There is nothing wrong with getting an idea from another person. The problem is treating an idea as a command. A friend, analyst, social media post or news report may point you toward a company. Your next sentence should be, 'Let me research it.'

The person who gave you the idea may have bought at a different price. They may plan to hold for two weeks while you plan to hold for five years. They may understand the company better than you. They may also be wrong. Your money needs your own reason. If the only reason you can give for owning a stock is 'people are buying it,' you still have work to do.

The ₦1,000 Question: What Could Your Money Have Become?

Later in this book we will ask a powerful question: what might ₦1,000, ₦100,000 or ₦1 million have become if it had been invested in a strong company years ago? That question is useful, but only if we use it carefully.

Looking backward is easy because we already know the result. The better question is: what could an investor have known at the time? Was revenue growing? Was profit improving? Was cash coming in? Was debt under control? Did the company have an advantage? What risks were visible? What price was the market asking?

We will study both winners and disappointments. If we study only winners, we can fool ourselves into thinking investing is easy. Past performance can teach us, but it does not promise the future.

The Difference Between Investing and Following the Crowd

Markets can make people emotional. When prices rise, people fear missing out. When prices fall, people fear losing everything. A serious investor learns to slow down between feeling and action.

Following the crowd means buying because other people are excited. Investing means building a reason based on the business, its numbers, its risks and the price you are paying. The crowd can give you an idea. It should not do your thinking for you.

How to Use This Book

Read this book with one listed company in mind. You do not have to buy it. Use it as practice. When we discuss revenue, find its revenue. When we discuss profit, find its profit. When we discuss debt, find its debt. When we discuss management, read about the directors. When we discuss valuation, try the simple calculations.

In Nigeria, investors who want to trade securities listed on the Nigerian Exchange generally do so through a registered securities dealer or stockbroker that is a Trading License Holder. The Central Securities Clearing System, or CSCS, provides central depository, clearing and settlement services for the market. Always confirm the current status of any operator through official channels before handing over money.

Meet the 8-Point Stock Filter™

Every major lesson in this book connects to eight questions:

1. THE BUSINESS — What does the company do, and how does it make money?
2. THE FINANCIALS — Is the company financially healthy?
3. THE GROWTH — Is the business improving over time?
4. THE CASH — Is real cash coming into the business?
5. THE PEOPLE — Who runs the company, and how are shareholders treated?
6. THE ADVANTAGE — Why can the company keep competing?
7. THE RISKS — What could damage the business or your investment idea?
8. THE PRICE — What are you being asked to pay for all of the above?

A company does not need to look perfect. Perfect businesses do not exist. The filter is a way to make sure one exciting story or one attractive number does not control your whole decision.

Before you learn how to choose a stock, learn how to think about one.

CHAPTER 1

WHAT IS A STOCK?

Understanding the market before you put in your money

What Is a Company?

A company is a business set up to provide goods or services. A bank provides financial services. A telecom company sells access to calls, data and related services. A cement company makes and sells cement. A food company may process, package and sell products people use every day.

A company has owners. It can also have workers, customers, suppliers, assets, debts and managers. When a company grows, it may need more money to expand. One way it can raise money is by selling shares.

What Is a Share?

A share is a unit of ownership in a company. Imagine a business is divided into one million equal pieces. If you own 1,000 of those pieces, you own a small part of the business. Those pieces are shares.

The word 'stock' is often used to talk about shares in a company or shares as an investment group. In everyday conversation, people may say 'I bought the stock' when they mean they bought shares.

What Does It Mean to Own a Stock?

Owning shares makes you a shareholder. Depending on the class of shares and the company's rules, shareholders can have rights such as voting on certain matters and receiving dividends when they are declared.

Owning shares does not mean you can walk into the company and give instructions to staff. Your ownership is usually very small. But the important idea remains: behind the price on your phone screen is a real business.

Why Do Companies Sell Shares?

Companies need capital. They may want to build a factory, buy equipment, enter a new state, expand a network, develop a product or strengthen the business. They can raise money in different ways, including borrowing or issuing shares.

When a company issues new shares, it can receive money from investors in exchange for ownership. Later, existing shares can also be bought and sold between investors in the secondary market.

How Do Investors Make Money?

There are two common ways. First, the market price of the shares can rise. If you buy 1,000 shares at ₦20, you put in ₦20,000. If the shares later trade at ₦30, the market value of those shares becomes ₦30,000. The ₦10,000 difference is an unrealised gain until you sell, and prices can change again.

Second, a company may pay dividends. If you own 5,000 shares and a company declares ₦2 per share, the gross dividend is ₦10,000 before any applicable deductions. Dividends are not guaranteed. A company can raise, reduce, skip or stop them.

What Are Dividends?

A dividend is a payment a company may make to shareholders from funds available for distribution. Some mature companies return a meaningful part of profits to shareholders. Other companies keep more money inside the business because they believe they can use it to grow.

Do not judge a company by dividend yield alone. A high yield can look attractive because the share price has fallen sharply, because the dividend may not be sustainable, or because the business has weak growth. Always ask where the dividend comes from and whether the business can support it.

Why Does the Price of a Stock Go Up and Down?

A stock price moves because buyers and sellers keep changing what they are willing to pay. Their decisions may be affected by company results, dividends, new products, debt, management changes, interest rates, exchange rates, government rules, industry news and expectations about the future.

This is why price and business value can move differently in the short term. People can become too excited or too afraid. Your job is not to react to every move. Your job is to understand what has changed, if anything, in the business.

What Is the Stock Exchange?

A stock exchange is an organised market where securities can be listed and traded under set rules. In Nigeria, the Nigerian Exchange Limited, or NGX, is a major exchange for listed equities. The exchange brings buyers and sellers together through authorised market participants.

Being listed does not make a company automatically safe or attractive. A listed company can still have weak profits, poor cash flow, high debt or serious business problems.

What Is a Stockbroker?

A stockbroker or securities dealer helps investors place orders in the market. In Nigeria, NGX says investors who want to buy securities in the primary or secondary market should appoint a registered securities dealer or stockbroker that is a Trading License Holder.

Before using any broker or investment app, confirm the operator through official sources. Do not assume a nice app, a social media page or a famous face means the operator is properly registered.

How Do I Buy a Stock?

The exact steps can differ, but the normal path is simple: choose a properly registered broker or platform, complete the required account-opening checks, fund the account, select the security, enter your order and wait for it to be matched in the market.

The technical act of buying can take only a few taps. The hard part is deciding what deserves those taps. This book is mainly about that harder part.

What Is a Listed Company?

A listed company is a company whose securities have been admitted to trading on an exchange. Listed companies have disclosure duties and must provide information to the market under applicable rules. This gives investors more information to work with, but it does not remove risk.

A listed company can still lose customers, make bad decisions or face a hard economy. The exchange gives you a market. It does not give you a guarantee.

What Is Market Capitalisation?

Market capitalisation is the market value of all a company's outstanding shares. The basic calculation is:

Market capitalisation = share price × shares outstanding.

If a company has 1 billion shares and each share trades at ₦20, its market capitalisation is ₦20 billion. This is why the price of one share does not tell you the size of the whole company.

What Is the Difference Between a Stock and a Cryptocurrency?

A share is an ownership interest in a company. You can study the company's revenue, profit, assets, cash flow, debt, customers and management.

A cryptocurrency is a different kind of asset. Owning a cryptocurrency does not usually mean you own part of a company in the same way that owning ordinary shares does. The research method is therefore different. This book focuses on businesses and listed shares.

Investing vs. Trading vs. Gambling

Investing usually means buying an asset because you believe it can produce value or income over time. Trading focuses more on price movements over shorter periods. Both can involve skill, risk and discipline.

Gambling is different because the result is mainly tied to chance and the rules of the game. In the stock market, a person can also behave like a gambler if they put money into things they do not understand based only on hope, rumour or excitement. The label matters less than the behaviour.

Why a Low-Priced Stock Is Not Always Cheap

A ₦5 share is not automatically cheaper than a ₦500 share. Suppose Company A trades at ₦10 and has 10 billion shares. Its market value is ₦100 billion. Company B trades at ₦500 and has 10 million shares. Its market value is ₦5 billion.

Even market capitalisation is not enough to tell you whether a stock is cheap. You still need to compare the price with earnings, assets, cash flow, growth and risk.

Why a High-Priced Stock Is Not Always Expensive

The same rule works in reverse. A ₦1,000 share may represent a strong business at a sensible valuation. A ₦20 share may represent a weak business at a high valuation. The number beside the share is only one piece of information.

A better question is: what am I getting for the price I am paying?

The First Rule: Understand What You Are Buying

You do not need to know everything about a company before you begin researching it. But you should not put money into a story you cannot explain. Start with the basic business. What does it sell? Who pays it? Why do customers choose it? How does it make profit?

From here, we can move to the system that will organise all the other questions: the 8-Point Stock Filter™.

INVESTOR'S TIP

A stock ticker is not the business. Whenever you see a price, train yourself to picture the company behind it.

CHAPTER 2

THE 8-POINT STOCK FILTER™

A simple system to use before you buy any stock

A beginner often asks for one magic number. “What P/E is good?” “How much profit should a company make?” “What dividend yield should I look for?” I understand the desire for a shortcut, but a single number can mislead you. Good research is more like a health check. You look at several signs together.

The 8-Point Stock Filter™ is a way to organise that health check. It is not a score that guarantees a winner. It is a set of questions that forces you to look at the whole picture.

FILTER 1 — THE BUSINESS

What does the company do and how does it make money?

Start here because numbers make more sense when you understand the engine behind them. Learn the main products, customers, locations, industry and sources of revenue. If a bank makes most of its money from interest and fees, know that. If a manufacturer depends heavily on imported raw materials, know that too.

FILTER 2 — THE FINANCIALS

Is the company financially healthy?

Look at revenue, profit, assets, liabilities, equity and debt. One year can be unusual, so compare several years. You are trying to see the condition of the business, not simply find one impressive headline.

FILTER 3 — THE GROWTH

Is the business improving over time?

Growth can appear in revenue, profit, earnings per share, customers, production capacity or other useful measures. But growth must be studied carefully. A company can grow sales while profit falls. It can grow profit because of a one-time gain. Ask what is really driving the improvement.

FILTER 4 — THE CASH

Is real cash coming into the business?

Accounting profit is important, but cash keeps a company alive. Study operating cash flow and what the company spends to maintain or expand the business. A company that reports profit year after year but rarely turns it into cash deserves closer attention.

FILTER 5 — THE PEOPLE

Who is running the company?

Management decides how capital is used. Directors oversee the company. Good governance matters because minority shareholders cannot stand beside management every day. Look for clear reporting, sensible decisions, proper treatment of shareholders and signs that leaders think beyond the next quarter.

FILTER 6 — THE ADVANTAGE

Why can the company keep competing?

A good business usually has a reason customers keep choosing it. That reason might be brand, location, licences, distribution, low costs, scale, customer relationships, network effects or technical know-how. An advantage is valuable only if it can last.

FILTER 7 — THE RISKS

What could damage the business or your idea?

Think about debt, regulation, currency, inflation, competition, commodity prices, customer concentration, technology and management. Risk is not a side note. It is part of the investment.

FILTER 8 — THE PRICE

What are you being asked to pay?

A wonderful business can still be a poor purchase if the price already assumes perfect growth. A troubled business can look cheap and still become cheaper. Valuation helps you compare the market price with the company's earnings, assets, cash and prospects.

How the Filters Work Together

Imagine a company with strong revenue growth, but most of that growth is financed with heavy borrowing. The Growth filter looks good, but the Financials and Risk filters may be warning you. Or imagine a company with a wonderful brand, good cash flow and low debt, but the shares trade at a very high price compared with earnings. The business may be good while the Price filter tells you to slow down.

The filters do not need equal weight in every industry. Debt means something different for a bank than for a consumer goods company. Cash flow patterns can differ between construction, insurance and manufacturing. The system gives you a map, but you still need to understand the business you are mapping.

PAUSE & CHECK

Before moving to the next chapter, choose one company you know. Without checking the internet, write one sentence for each of the eight filters. The gaps will show you what you still need to research.

CHAPTER 3

FILTERS 1–3: THE BUSINESS, THE NUMBERS & THE GROWTH

Learn to look at the company, not just the stock price

Part 1 — Understand the Business

The best place to start is the company itself. Read the company profile, recent annual report and investor presentation if one is available. You are trying to answer a child-simple question: “How does this company turn work into money?”

Take a fictional company called Naija Foods Plc. It buys agricultural inputs, processes them into packaged food, sells through distributors and retailers, and collects money from customers. That simple chain already tells you what to investigate: raw-material costs, factory capacity, distribution reach, pricing power, competition and consumer demand.

What Does the Company Sell?

Write down the main products or services. A company with many divisions can be harder to understand, so learn which parts bring in the most revenue and profit.

Who Buys From the Company?

A business that sells to millions of small consumers has a different risk from one that depends on three large customers. Ask whether customers are spread out or concentrated.

Where Does the Money Come From?

Revenue may come from different products, regions or business lines. A company can look diversified while one segment still provides most of the profit.

What Industry Is It In?

Industry conditions matter. A bank, insurer, cement producer and telecom operator should not be judged with exactly the same measures. Learn the basic economics of the industry before comparing companies.

Part 2 — Understand the Numbers

Financial statements are simply organised records of what has happened in the business. You do not need to read every line on day one. Start with a few core numbers and learn what story they tell together.

Revenue

Revenue is the money a company earns from selling goods or services before many costs are removed. If revenue rises from ₦100 billion to ₦120 billion, sales have grown by 20%. That is useful, but it does not yet tell you whether the company became more profitable.

Gross Profit

For many non-financial businesses, gross profit is what remains after subtracting the direct cost of producing the goods or services sold. If raw-material costs rise faster than selling prices, gross profit can come under pressure.

Operating Profit

Operating profit looks at profit from normal business operations before some financing and tax effects. It helps you see how the core business is performing.

Net Profit

Net profit is what remains after the company accounts for expenses, finance costs, taxes and other relevant items. Beginners often stop here. Do not. Ask how the profit was produced and whether it is supported by cash.

Assets, Liabilities and Equity

Assets are resources the company controls. Liabilities are obligations it owes. Equity is the residual interest belonging to shareholders after liabilities are deducted from assets. The balance sheet gives you a picture of financial position at a point in time.

Earnings Per Share

Earnings per share, or EPS, takes profit attributable to ordinary shareholders and relates it to the number of shares. It helps you compare profit on a per-share basis. This matters because a company can issue more shares, which can spread earnings across a larger number of shares.

Part 3 — Look for Growth

Growth is not simply “this year is bigger than last year.” You want to know whether the business is building a stronger earning engine over time.

Revenue Growth vs. Profit Growth

If revenue grows 20% but profit grows only 2%, costs may be rising. If profit grows much faster than revenue, margins may be improving—or there may be a one-off gain. Ask why.

Earnings Per Share Growth

Profit can rise while EPS grows slowly if the number of shares also rises. EPS helps you think like an owner of one share.

Dividend Growth

A growing dividend can be positive, but only when supported by earnings and cash. Do not celebrate a dividend increase without checking whether the business can afford it.

The Five-Year Test

Where possible, place at least five years of key numbers side by side: revenue, profit, EPS, debt and operating cash flow. You are looking for direction, consistency and major breaks in the pattern.

Year	Revenue (₦bn)	Net Profit (₦bn)	EPS (₦)	Debt (₦bn)	Operating Cash Flow (₦bn)
1	100	8	0.80	20	10
2	112	9	0.90	22	11
3	125	10	1.00	25	12
4	146	12	1.20	26	15
5	170	15	1.50	24	18

In this fictional example, the business grows revenue and profit, EPS rises, cash flow improves and debt stops rising by Year 5. That does not make the stock an automatic buy. It simply gives you a cleaner starting story for the next filters.

INVESTOR'S TIP

Never celebrate growth until you know what created it. Growth from higher prices, more customers, a new factory, acquisitions and one-time gains are not the same thing.

CHAPTER 4

FILTERS 4–6: CASH, PEOPLE & COMPETITIVE ADVANTAGE

What makes a business strong after the headline profit?

FILTER 4 — FOLLOW THE CASH

Profit is an accounting measure. Cash is what pays workers, suppliers, lenders and dividends. The two are connected, but they are not identical.

Imagine a company sells ₦10 million of goods on credit. It may record revenue today even though the customer will pay later. If customers delay payment, the profit statement can look fine while the company feels pressure in its bank account. That is why investors study the cash flow statement.

Operating Cash Flow

This shows cash generated or used by the normal operations of the business. Over time, a healthy business should usually turn a meaningful amount of reported profit into operating cash, although timing and industry patterns can cause differences.

Capital Spending

Many businesses must spend money on factories, equipment, networks or other long-term assets. Cash left after the cash needed to maintain and grow the business is important because it gives management more choices.

Working Capital

Inventory, customer debts and supplier payments can tie up cash. Fast revenue growth can even create cash pressure if the company must buy stock or give customers long credit before getting paid.

Debt and Cash

Debt is not automatically bad. Borrowing can help a company expand. The question is whether the company can comfortably pay interest and repay or refinance debt without hurting shareholders.

FILTER 5 — KNOW THE PEOPLE

You cannot separate a business from the people who allocate its money. Management decides whether to build a factory, buy another company, borrow, pay dividends, issue shares or enter a new market. Those decisions can create or destroy value.

Read the Leadership Section

The annual report usually tells you who the directors and senior leaders are. Look at experience, tenure and whether key roles are clearly described.

Watch Capital Allocation

A manager can report good profit and still make poor use of the money. Pay attention to expensive acquisitions, repeated share issues, large debts and projects that never seem to produce results.

Look for Clear Communication

Good communication does not mean management always has good news. It means the company explains important events clearly, gives useful detail and does not hide problems behind vague language.

Corporate Governance

Governance is the system used to direct and oversee the company. It includes the board, controls, audits, related-party transactions and the way minority shareholders are treated.

FILTER 6 — FIND THE ADVANTAGE

A profitable company attracts competition. If a business has nothing that protects it, competitors can copy its product, cut prices and take customers. A competitive advantage is something that makes this harder.

Brand

Customers trust the name and may choose it even when alternatives exist.

Distribution

The company can place products or services in more locations than smaller rivals.

Scale

A large company may spread costs over a bigger base and buy inputs on better terms.

Licences or scarce assets

Some industries require approvals, infrastructure or resources that are hard to copy.

Low-cost position

A company that can produce at lower cost may survive price pressure better.

Customer switching costs

Customers may find it difficult or costly to move to another provider.

Network effects

A service can become more useful as more people join it.

A real advantage is not “people know the company.” It is a reason the company can defend customers, margins or growth for longer than rivals.

CHAPTER 5

FILTER 7: WHAT COULD GO WRONG?

Learning to think about risk before thinking about profit

Many beginners begin with the upside: “How much can I make?” Experienced investors also spend time on the downside: “What can break this idea?” Risk does not mean you should be afraid of every investment. It means you should know what you are accepting.

Business Risk

Customers may stop buying, a product may become less useful, or costs may rise faster than prices.

Debt Risk

A company with too much debt may struggle when interest rates rise or cash flow falls.

Management Risk

Poor decisions, weak controls or bad governance can damage even a strong business.

Competition Risk

A rival can lower prices, introduce a better product or take market share.

Regulatory Risk

Government or regulators can change rules, licences, taxes, tariffs or other conditions that affect the business.

Inflation Risk

High inflation can raise costs, reduce consumer buying power and make reported growth look better in naira terms than it feels in real life.

Interest Rate Risk

Higher rates can increase borrowing costs and make safer interest-bearing investments more attractive compared with shares.

Currency Risk

A Nigerian company that earns naira but imports equipment or raw materials in dollars can face pressure when the naira weakens. A company that earns foreign currency may be affected differently.

Commodity Risk

Oil, gas, agricultural goods and other commodities can move sharply in price, affecting companies linked to them.

Liquidity Risk

Some shares do not trade heavily. It may be hard to buy or sell a large position quickly at the price you expect.

Concentration Risk

A company may depend too much on one customer, product, supplier, country or project.

Dilution Risk

If a company issues many new shares, your percentage ownership and earnings per share can be affected unless growth in profit keeps up.

The African and Nigerian Context

You should never judge a company as if it operates in a vacuum. In Nigeria, inflation, interest rates, exchange-rate movements, power and logistics costs, policy changes and consumer purchasing power can all affect businesses. The same event can help one company and hurt another.

For example, a weaker naira can hurt a company that imports most of its raw materials and cannot raise prices quickly. The same currency move may help a company that earns a large part of its revenue in foreign currency, although other costs and rules still matter.

Temporary Problem or Permanent Damage?

A temporary problem hurts results for a period but does not destroy the reason customers value the business. Permanent damage changes the economics of the company. A factory shutdown that is repaired may be temporary. A product becoming obsolete may be permanent. The line is not always obvious, so ask what must happen for the business to recover.

THE RISK QUESTION

Do not write only “economy” or “competition” under risks. Be specific: What exactly can happen? How would it hurt revenue, profit, cash or the balance sheet? What evidence would show the risk is becoming real?

CHAPTER 6

FILTER 8: ARE YOU PAYING THE RIGHT PRICE?

Understanding valuation without turning the book into a maths class

A company can be excellent and still be a poor purchase at the wrong price. Valuation is the bridge between a business and the amount the market asks you to pay for it.

Think about a good house. The fact that the house is well built does not tell you whether ₦50 million, ₦100 million or ₦500 million is a fair price. You need some way to compare the asking price with what you are getting. Stocks are similar.

Share Price vs. Company Value

Share price is the price of one share. Market capitalisation is the price of all outstanding shares together. Neither one alone tells you whether the company is cheap or expensive.

Earnings Per Share (EPS)

EPS puts profit on a per-share basis. If profit attributable to ordinary shareholders is ₦10 billion and there are 5 billion shares, simplified EPS is ₦2 per share.

Price-to-Earnings Ratio (P/E)

The P/E ratio compares share price with earnings per share. If a share trades at ₦20 and EPS is ₦2, the P/E is 10. In simple terms, the market is paying 10 times the current annual earnings per share. A low P/E is not always cheap, and a high P/E is not always expensive. Growth, risk, interest rates and accounting quality matter.

Price-to-Book Ratio (P/B)

P/B compares the market price with book value per share. It can be especially useful in some asset-heavy or financial businesses, but book value does not capture every advantage a company may have.

Dividend Yield

Dividend yield compares annual dividend per share with the share price. If the share costs ₦20 and annual dividend is ₦1, the yield is 5%. A high yield can be attractive, but only if the dividend is sustainable.

Price-to-Sales Ratio

This compares market value with revenue. It can help when profits are temporarily weak, but sales without healthy margins can still destroy value.

Enterprise Value

Enterprise value is a broader way of thinking about what it may cost to own the operating business because it takes account of debt and cash as well as equity value. Beginners do not need to master it on day one, but it becomes useful when comparing companies with different debt levels.

A Simple Valuation Example

Two companies both earn ₦2 per share. Company A trades at ₦20, so its P/E is 10. Company B trades at ₦40, so its P/E is 20. Is Company A automatically better? No. Company B may be growing much faster, have lower debt, stronger cash flow and a better competitive position. Or it may simply be overpriced. The ratio starts the question; it does not finish it.

Compare Like With Like

Compare a bank mainly with other banks, not with a cement company. Compare a telecom operator with businesses that have similar economics. Also compare a company with its own history. If its normal valuation range changes, ask what changed in the business, the economy or investor expectations.

When “Cheap” Is a Warning

A stock can trade at a low P/E because investors expect profit to fall. It can have a high dividend yield because the share price has collapsed and the dividend may be cut. This is sometimes called a value trap: the stock looks cheap on old numbers, but the business is getting worse.

Valuation is not about finding the smallest number. It is about asking whether the price makes sense for the quality, growth and risk of the business.

CHAPTER 7

HOW TO RESEARCH A STOCK BEFORE YOU BUY

Putting the 8-Point Stock Filter™ into practice

This chapter turns the book into a routine. The goal is to be able to open a company name and know what to do next.

Step 1 — Start With Official Sources

Begin with the company's own investor-relations information, annual reports, audited financial statements and official market announcements. In Nigeria, NGX and SEC Nigeria are important official places to verify market information and operator status. Be careful with screenshots that have no source.

Step 2 — Read the Business Description

Write one paragraph in your own words: what the company sells, who pays it, where it operates and the main way it makes money. If you cannot do this, stay here longer.

Step 3 — Collect Five Years of Key Numbers

Create a small table for revenue, profit, EPS, debt, equity, operating cash flow and dividends. Five years is not a magic number, but it is long enough to reveal more than one good or bad year.

Step 4 — Read the Notes, Not Only the Headline

The notes to the accounts explain many important numbers. Large one-off gains, currency effects, related-party transactions, new debt and changes in accounting can hide behind a simple profit figure.

Step 5 — Study Management and Governance

Read the directors' profiles, governance report, audit report and major shareholder information. Look for repeated changes, unexplained transactions or weak disclosure.

Step 6 — Understand the Industry

Find the main competitors and the forces affecting the sector. For a bank, think about interest rates, credit quality and regulation. For a manufacturer, think about input costs, pricing power and capacity. For telecoms, think about subscribers, data demand, network spending and regulation.

Step 7 — Write the Risks Before the Upside

Force yourself to write at least three ways the idea can go wrong. This reduces the chance that excitement will control your thinking.

Step 8 — Check the Valuation

Calculate a few simple ratios and compare them with similar companies and the company's history. Do not use a ratio you do not understand.

Step 9 — Write an Investment Thesis

Your thesis is a short explanation of why the company may become more valuable over time. It should include the business, growth drivers, financial condition, risks and valuation. If your thesis is only “the price will go up,” you do not yet have a thesis.

Step 10 — Write What Would Change Your Mind

Before buying, decide what evidence would show you were wrong. This could be loss of a major customer, debt rising above a level you are comfortable with, cash flow staying weak, or the business losing its advantage.

The Stock Research Sheet

Research Item	My Notes
Company	
Ticker	
Industry	
What the company does	
How it makes money	
Main customers	
Revenue trend	
Profit trend	
EPS trend	
Debt trend	
Operating cash flow	
Dividend history	
Management notes	
Competitive advantage	
Top 3 risks	
Current valuation notes	
Why I am considering it	
What would change my mind	

When to Wait

Waiting is a decision. You can understand a good company and still decide the price is too high. You can like the price and still decide the financial statements are not clear enough. You can place the

company on a watchlist and continue learning. The market does not require you to own everything you study.

RESEARCH RULE

Do not let the speed of an app force the speed of your thinking. The “Buy” button can be instant. Your research should not be.

CHAPTER 8

THE ₦1,000 LESSON

What history can teach us — and what it cannot

Historical returns are powerful because they make compounding visible. They are also dangerous because hindsight can make the past look obvious. This chapter teaches you how to use history without fooling yourself.

The Power of Compounding

Compounding means growth building on earlier growth. If ₦100,000 grows by 10% in one year, it becomes ₦110,000. If it grows by another 10% the next year, the gain is calculated on ₦110,000, not the original ₦100,000. Over long periods, this can become powerful. Real stock returns are not smooth like this example. Some years can be negative, and dividends, fees, taxes, inflation and currency changes matter.

Price Return vs. Total Return

A chart that shows only the share price can miss part of the investor's experience. Total return includes the effect of dividends, assuming you account for them properly. Corporate actions such as share splits, bonus issues, rights issues, mergers and spin-offs can also affect historical calculations. That is why any marketing claim such as “₦1 million would have become ₦20 million” should state the exact start date, end date and assumptions.

How to Build a Fair Historical Case Study

- Choose an exact purchase date or a clearly defined period.
- Use an adjusted historical price when corporate actions require it, or explain the adjustments yourself.
- State whether dividends are included and whether they are reinvested.
- Include transaction costs or clearly say they are excluded.
- Do not pick only winners. Include at least one disappointing case.
- Separate what was knowable at the time from what you know today.

Case Study A — The Strong Compounder (Fictional)

Imagine Lagos Consumer Plc. Fifteen years ago, the company had a small but trusted brand, low debt and a distribution system that was spreading across Nigeria. Revenue grew most years, profit margins improved slowly and operating cash flow stayed healthy. The shares were not always cheap, and the company had difficult years when inflation pushed up input costs.

An investor using the 8-Point Stock Filter™ at the time might have noticed a simple business, healthy finances, steady growth, real cash, experienced management and a distribution advantage. The

investor would still have needed to check valuation and risks. The lesson is not “buy consumer stocks.” The lesson is that long-term returns often begin with long-term business quality.

Case Study B — The Cheap-Looking Trap (Fictional)

Now imagine Delta Machines Plc. The stock price fell from ₦50 to ₦12. The P/E looked low based on last year’s profit, and people began calling it cheap. But the company had lost a large customer, borrowed heavily in foreign currency and was struggling to collect money from distributors. Operating cash flow was negative for two years.

The low price was real. The low risk was not. A beginner who looked only at the P/E might see a bargain. The full filter would raise questions under Cash, Financials, Growth and Risks. The lesson is simple: a falling price can create opportunity, but it can also reveal a business that is becoming weaker.

Case Study C — The Great Company at a Wild Price (Fictional)

Imagine Abuja Data Plc is growing fast. Customers love the service, revenue is climbing and debt is low. Everyone knows the story. The market becomes so excited that the shares trade at a very high multiple of current earnings. For the company to justify that price, it may need years of excellent growth with few mistakes.

Nothing may be wrong with the business. The problem can be the expectations built into the price. This is why Filter 8 comes last. You can love a company and still wait for a price that gives you a better balance between possible reward and risk.

What Winners Often Have in Common

Long-term winners can come from very different industries, but many share a few traits: they solve a useful problem, manage money well, grow without destroying the balance sheet, keep customers, generate cash and adapt when conditions change. The market eventually notices those things, but it does not always price them correctly every day.

What Failed Investments Can Teach Us

Losers are often more useful teachers than winners. They show what happens when debt becomes too large, management loses focus, competition changes an industry, accounting profits do not turn into cash, or investors pay a price that leaves no room for mistakes.

Avoid Survivorship Bias

Survivorship bias means looking only at companies that survived and forgetting those that disappeared, struggled or were delisted. If you choose a famous winner today and calculate what ₦1,000 would have become, the result can look like the outcome was easy to see. It was not. A fair study also asks what other companies looked promising at the same time and what happened to them.

History is a classroom, not a crystal ball.

CONCLUSION

DON'T FOLLOW THE CROWD. FOLLOW THE PROCESS.

You began this book with a simple question: what should I know before I buy a stock? You now have a process for answering it.

You know that a stock is ownership in a business. You know that revenue is not profit, profit is not cash, growth is not always healthy, debt is not always bad, a famous company is not automatically a good investment, and a low share price is not automatically cheap.

Most importantly, you have eight questions you can carry with you:

- THE BUSINESS — Do I understand how it makes money?
- THE FINANCIALS — Is the company financially healthy?
- THE GROWTH — Is the business improving over time?
- THE CASH — Does the business turn its work into real cash?
- THE PEOPLE — Who runs it and how do they treat shareholders?
- THE ADVANTAGE — Why can it keep competing?
- THE RISKS — What can damage the business or my idea?
- THE PRICE — What am I paying for all of this?

You will not always have a clear answer. That is normal. “I do not know enough yet” is a valid investment conclusion. So is “good company, wrong price.” So is “interesting idea, but the risk is too high for me.”

The purpose of the 8-Point Stock Filter™ is not to remove uncertainty. It is to stop uncertainty from being replaced by guesswork.

The market will always give you another company to study. Protect your process, protect your patience, and keep learning.

THE 8-POINT STOCK FILTER™ — MASTER CHECKLIST

1. THE BUSINESS

- ☐ Can I explain what the company does in two sentences?
- ☐ Who are the customers?
- ☐ How does the company make money?
- ☐ Which products or segments matter most?

2. THE FINANCIALS

- ☐ Are revenue and profit understandable?
- ☐ Is debt manageable for this type of business?
- ☐ Is shareholders' equity stable or growing?
- ☐ Are there unusual one-off items?

3. THE GROWTH

- ☐ What has happened to revenue, profit and EPS over five years?
- ☐ Is growth consistent or highly unstable?
- ☐ What is driving the growth?
- ☐ Is the number of shares rising quickly?

4. THE CASH

- ☐ Does operating cash flow support reported profit over time?
- ☐ How much capital spending is needed?
- ☐ Are customers taking too long to pay?
- ☐ Can the company fund its needs without constant borrowing?

5. THE PEOPLE

- ☐ Who are the key leaders and directors?
- ☐ Does management communicate clearly?
- ☐ How has management used shareholders' money?
- ☐ Are there governance or related-party concerns?

6. THE ADVANTAGE

- ☐ Why do customers choose this company?
- ☐ What would make it hard for a new competitor to copy?
- ☐ Is the advantage getting stronger or weaker?

7. THE RISKS

- ☐ What are the three biggest business risks?
- ☐ What happens if the naira weakens or interest rates rise?
- ☐ Is the company exposed to one customer, product or supplier?
- ☐ What evidence would show my thesis is breaking?

8. THE PRICE

- ☐ What is the current P/E, P/B or other useful measure?
- ☐ How does valuation compare with peers and history?
- ☐ What growth does the current price appear to expect?
- ☐ Is there enough room for mistakes?

BEGINNER'S GLOSSARY

Annual Report: A yearly report that explains a company's business, performance, financial statements, risks and governance.

Asset: Something of value the company controls, such as cash, buildings, equipment or receivables.

Balance Sheet: A financial statement showing assets, liabilities and equity at a point in time.

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

Dividend: A payment a company may make to shareholders.

Earnings Per Share (EPS): Profit attributable to ordinary shareholders expressed on a per-share basis.

Equity: The residual interest belonging to shareholders after liabilities are deducted from assets.

Liability: An obligation the company owes.

Market Capitalisation: Share price multiplied by the number of outstanding shares.

P/E Ratio: Share price divided by earnings per share.

P/B Ratio: Market price compared with book value per share.

Revenue: Money earned from selling goods or services before many costs are removed.

Share: A unit of ownership in a company.

Stockbroker: A market intermediary that helps investors buy and sell securities.

Valuation: The process of judging what a business or security may be worth compared with the price being asked.

SOURCES & FURTHER READING

For current Nigerian market procedures, operator status, investor education and regulatory updates, use official sources. The following were checked while preparing this manuscript:

- **Nigerian Exchange Limited (NGX) — Becoming an Investor**
<https://ngxgroup.com/exchange/trade/becoming-an-investor/>
- **Nigerian Exchange Limited (NGX) — Find a Broker / Trading License Holder Directory**
<https://ngxgroup.com/exchange/trade/becoming-an-investor/find-a-broker/>
- **Securities and Exchange Commission Nigeria — Investor Education**
<https://sec.gov.ng/our-mandate/development/investor-education/>
- **Securities and Exchange Commission Nigeria — Investors Hub**
<https://sec.gov.ng/for-investors/>
- **Central Securities Clearing System (CSCS) — Investor Account Management Services**
<https://www.cscs.ng/investor-account-management-services/>

Because market rules and operator status can change, confirm current information before acting.

A FINAL WORD FROM JAMES BALOGUN

If this book has done its job, you should not finish it feeling that you have found a secret formula. You should finish it feeling calmer. You should know what to ask, where to look and when to slow down.

The best beginner is not the person who buys the most stocks. It is the person who keeps improving the quality of each decision.

Before you buy that stock, run it through the 8-Point Stock Filter™.