Twitter Thread by Groww



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#GrowwQuotient: How to spot red flags in a stock?

(1/10)



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Identify bad stocks

How to spot **red flags** in a stock?



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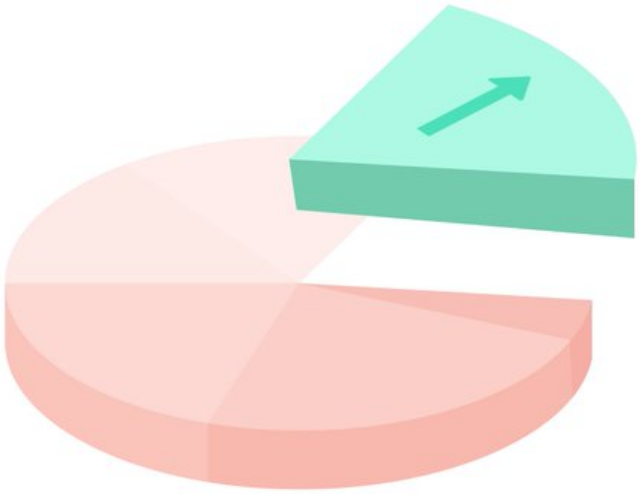
Have you ever come across a bad stock?

There is always that one stock - maybe your first even, that has left you with some bad investment memories.

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While we often hear of ratios that help us pick good stocks, keeping our eyes open to spot red flags is just as important. Experts often say that the first step to picking good stocks is segregating the bad ones.

Today on Groww Quotient, let's understand how we can identify bad stocks and keep our **portfolio healthy.**





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Spotting red flags in

company financial statements.

We often look at balance sheets and income statements to measure a company's financial performance. Both of these are legitimate sources to look at.

However, you must also check the company's **operating cash flow and net profit** from the past 4-5 years**.** You can find these easily from the cash flow statement and P&L statement of any company/stock on Groww.



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What's operating cash flow?

This amount is basically any cash that a company has generated from its operating/business activities.

What's net profit?

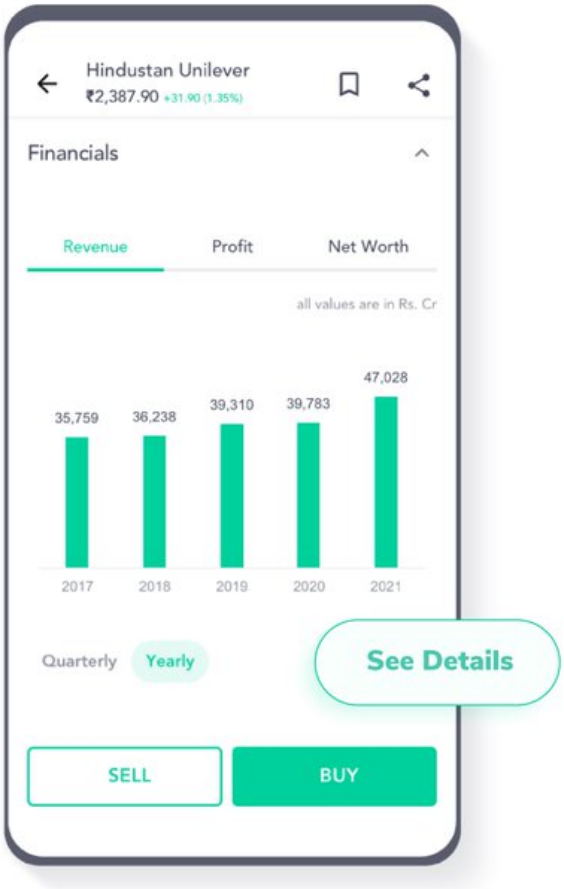
Quite evident from the term itself, net profit is the net income/earnings that represent the financial standing of the company/stock after all its expenses have been paid off.



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Click on the stock you want to evaluate and scroll down to the '**Financials**' section.
Tap on 'See details'.

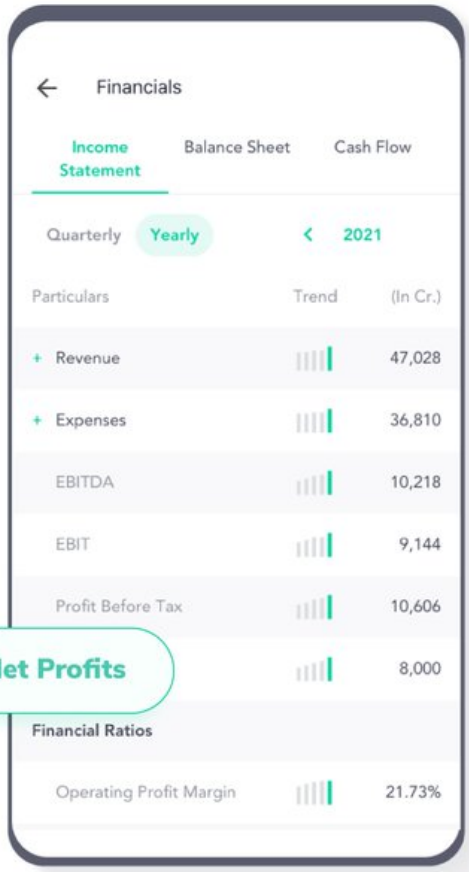
Here's how you can find these **two important factors:**

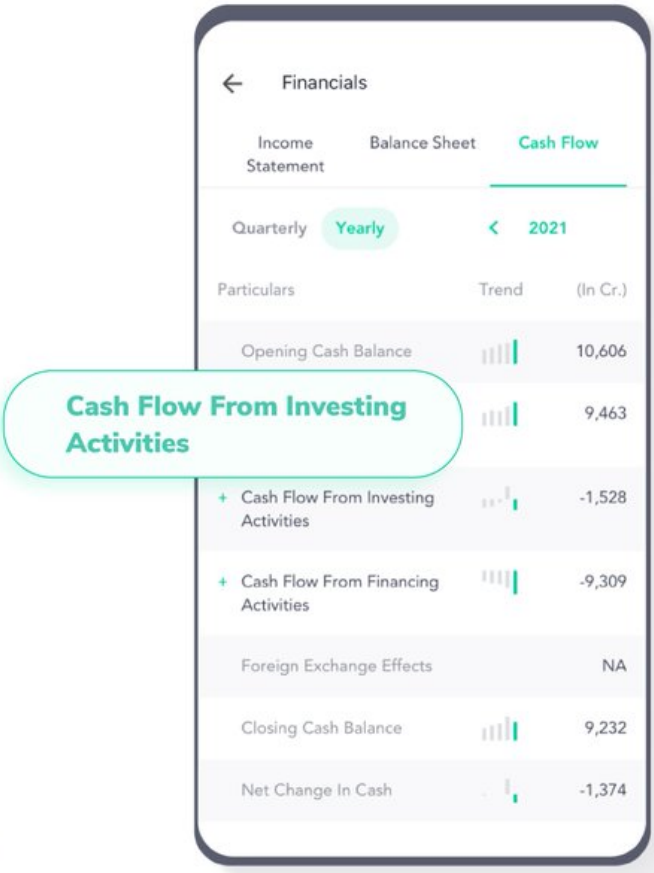




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Under cash flow, you will find the **yearly cash flow from operating activities** generated by the company for 5 years.





Under the income statement, you will find the **yearly net profit** of the company for 5 years.



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Got it. What next?

First, add the operating cash flow numbers from the past 4-5 years.

Then, add the net profit numbers from the past 4-5 years.

Now, check. Are both the numbers somewhat close to each other?

If yes: You found a good stock.

If no: You spotted a red flag! 



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Profit is secondary.
Cash flow matters most.

- *Peter Drucker*



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Good companies exhibit consistent **positive cash flows from their operating activities**. Ideally, it should also be growing from the past 4-5 years. It shows that the company's products and services are in demand in the market. Additionally, they are also bringing in a major part of revenues in cash.

What a great sign, isn't it?