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Investing

Be wary when searching the Internet: Lots of that 'info' can mislead you

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Without a doubt, the Internet is full of information and knowledge. We've all learned many things on the Internet, and settled lots of disagreements by "just Googling it." But we've also learned that there's much misinformation, too. For that reason, we need to be wary when using the Internet for investing.

True, the Internet has a lot of investing information, such as stock quotes, charts, fundamental data, research and discussion forums. On the surface, it all looks good. But is it useful or even reliable?

With many sites, it's often hard to tell where they get their information, or even if it's up to date. We also don't know how they calculate their data, if they're independent, or more dangerously, if there are biases driving them. Those are just a few issues to look out for. In general, I would caution that information you find on the Internet is good only for background purposes.

Here's an example. Suppose, on the Internet, I try to find the price-to-earnings ratio of a well-known, large Canadian company. Using a few different websites, I get the following results: a reasonably priced 16x, a moderately expensive 21.8x and an in-between 19.8x. How can there be such a big range in numbers, each with different conclusions, for such a simple variable? After all, P/E is just the stock price divided by its annual earnings. So which number is correct, and why are the numbers so different?

There can be a number of explanations. In this case, the price part of the equation is pretty clear. This leaves earnings as the culprit. The thing with earnings is that they often need to be adjusted for special one-time gains or losses. For example, if a company sold off a division, the proceeds would be included in earnings. But since this isn't part of their normal operations, it shouldn't be included when valuing a company. Making these adjustments requires expertise and labour that you seldom find on the Internet, especially for free.

Also, definitions can vary from site to site. For example, earnings might be trailing, referring to earnings in the past 12 months. Or, earnings might be forward, meaning expected earnings over the next 12 months. Neither of these is wrong; they're simply different definitions. Just be careful how you use such information. So much depends on what you are trying to do, and on making sure that you're not getting apples when you want oranges.

At the Stan Clark Financial Team, we get the most accurate and timely data from independent financial data vendors. We have to pay for it, but it's well worth it. Our vendors provide us with data that has been adjusted, or "scrubbed," by more than 40 accountants and investment professionals. They verify the data for consistency and accuracy. In the example I used earlier, our data shows the P/E ratio for a major company to be 13.2x. This is very different from the 19x or 20x numbers found on the Internet, and it could have a significant impact on deciding if this company is a good investment.

Overall, the Internet has been good for society. There's a great quantity of information. But the Internet varies dramatically in quality, so we have to be careful in how we use it.

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