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1 Investing Mistake You Can’t Afford to Make

Description

It’s tough to admit it these days, but I’m an avid Toronto Blue Jays fan. This past winter the team’s management, thanks to a big payroll boost from its owner **Rogers** (TSX: RCI.B), put together what was on paper a team loaded with talent and poised to make a real run for a return of the glory days.

Unfortunately, once the season started it was back to reality. However, in this season of missed expectations there is a critical investing lesson to be learned. Quite simply, shifting your investing strategy to one that seeks quick profits just doesn’t work.

For the past few years, the Jays preached patience. The club was building a team that would be a great long-term winner. It was adding controllable, high-upside players that over time would return the team to its glory days. All that changed this past winter as the team radically shifted its strategy to one focused on winning this year.

Overpaying for high-priced talent

The biggest mistake the team made was overpaying for high-priced talent. Costly veterans were added at the expense of young, relatively cheap talent. These veterans didn’t have a lot of upside left in their careers making them more susceptible to regression and not providing the returns the team had hoped.

The investing takeaway would have been akin to adding a known commodity like **Suncor** (TSX: SU) to the team and expecting a big year out of the gate. Suncor, which is among the largest companies in Canada by market cap and not exactly cheap at 20 times earnings has struggled this year to keep its production flowing. One of the problems it has faced is a shutdown of **Enbridge’s** (TSX: ENB) regional oil sands pipeline, which impacted its ability to produce. Not only that, but the company has had its own issues and had to shut down production for maintenance. This has caused daily oil production to plummet from a high of 375,000 barrels of oil per day in March to just 293,000 barrels of oil per day last month.

Not being able to produce at its full capacity has led to a disappointing year for Suncor investors as its stock has underperformed the S&P/TSX Composite this year. If you’d cleared your portfolio out of other promising stocks, like the Blue Jays did with the teams emerging prospects, in hopes that Suncor would deliver investing glory, you'd be sorely disappointed. This brings me to my next point, selling high upside talent early could cost investors in the years to come.

Selling early and missing the upside

One of my greatest successes as an investor has been to not sell **Catamaran** (TSX: CCT) despite the fact that it has risen nearly 1,000% since I added it to my portfolio. That gain, which has made it one of the best stocks in Canada over the past decade, would have been lost if I'd been tempted to sell early. I've been able to resist that temptation for one reason, my strategy is to hold on to a stock unless the fundamentals change.

When it comes to Catamaran, the fundamentals have only strengthened over time. The company is using technology and building scale to help cut the costs of pharmaceuticals. The ability to leverage its technology and scale its business by acquiring smaller competitors has made the company the fastest-growing pharmacy benefits manager in the industry. While it processes one out of every five prescription claims in the U.S., it still has room to take additional market share in the future. Holding when others would have sold has really boosted my returns.

Giving up on golden talent

One thing I will give the Blue Jays, and parent company Rogers, credit for is that the team hasn't sold low on valuable talent. The team could have chosen to sell its underperforming pieces after the slow first half. This strategy shift is one that too many investors and sports teams make.

The investing takeaway here is pretty clear, especially for those investing in a gold mining stock this year. With gold having the worst quarter in the past half century, it has crushed the value of gold mining stocks like **Goldcorp** (TSX: G), which is down about 23% this year.

However, those selling now will miss out on a potentially golden future. Goldcorp has the potential to increase production by 70% by 2017. That has the company confident it can deliver industry leading cash flow growth of 67% over the next two years which should lead to improved returns for the company's owners. Too many investors have been willing to sell this potentially golden future after a rough start to the year.

Final Foolish thoughts

Investors can save substantial sums of money by avoiding a radical strategy shift in an effort to quickly boost returns. Paying up to buy premium stock that's past its prime in hopes of a quick return rarely ends well. Likewise, selling a promising company too early is another mistake investors make when continually shifting strategies. That's one reason why we at The Motley Fool encourage investors to take a long-term approach.

We also know that assembling an air-tight portfolio can be a tall order. One of the keys is to build your portfolio around companies that will be paying dividends for years to come. To help take the guesswork out of dividend investing, The Motley Fool assembled a Special FREE Report, "13 High-Yielding Stocks to Buy Today." Just click here to receive a copy at no charge!

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Fool contributor Matt DiLallo owns shares in Catamaran and Rogers. The Motley Fool does not own shares in any of the companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ENB (Enbridge Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)
3. TSX:SU (Suncor Energy Inc.)

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1. Investing

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