How to Avoid the Number 1 Mistake Investors Make

Description

In the investing world, there is one uncomfortable truth in particular that few people like to talk about: Individual investors tend to underperform. The latest research from DALBAR not only confirms this, but reveals the gap to be especially wide. Over the past 30 years, the S&P 500 has returned 11.11% per year while individual investors have averaged only 3.69%. Why is there such a difference?

The biggest reason is that investors tend to trade too often, which comes with two problems. One is that the trades are made at the wrong time – investors tend to buy high and sell low. The other problem is that trading costs tend to eat into returns.

So the number one thing you can do to improve performance is to trade less often. If necessary, even a predetermined rule – such as "I can't sell this stock for five years" – can be effective. But in order for this to really work, you need to choose companies that you know will still be strong in five years (or an index fund).

Below are three such stocks.

1. Enbridge Inc.

There are very few companies in Canada that produce earnings as consistently as **Enbridge Inc** (TSX: ENB)(NYSE: ENB). The pipeline operator generates very predictable income based on long term contracts, less than 5% of which is tied to commodity prices.

As a result, the company has managed to raise its dividend each year for the past 19 years. And in another five years, Enbridge will still play an essential role in Canada's energy sector; you can feel comfortable buying and holding for that long.

2. Empire Company Ltd

Despite all the chatter about the "grocery wars", food retailing is still one of the most stable industries in Canada. The established players still have a strong foothold – including the best real estate – giving them a leg up over both new entrants and suppliers. And it's not an industry that will experience lots of ups and downs; people always need food.

Empire Company (TSX: EMP.A), best known for its Sobeys banner, is Canada's second largest food retailer. And results have been fairly steady, as would be expected – over the past 10 years, adjusted earnings per share has only decreased once (by 1% in 2007).

3. Fortis

Fortis (TSX: FTS) is Canada's largest publicly owned distribution utility. So if there's a company you can count on for stable earnings, this is it. As long as people need to keep the lights on, Fortis will continue generating cash flow.

To put this in perspective, Fortis has raised its dividend every year for the past 41 years. Very few companies in Canada – or in any country – are capable of such a thing. Without doubt it's the kind of company you should feel comfortable owning over the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:EMP.A (Empire Company Limited)
3. TSX:ENB (Enbridge Inc.)
4. TSX:FTS (Fortis Inc.)

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bensinclair