How to Buy Low and Stay Calm When the Stock Goes Lower

Description

When we see a dip in price of say, 20% in a stock, we might buy it. Price shouldn't be the only consideration, but there can be worse things an investor can do than buy a reputable company on the dip.

Actually, this is what I did for **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). In March I bought it at about $32 per share after it dipped from its high of $45. This is a drop of 29%. Yet today its shares are at $26, another 19% drop from my purchase price.

Instead of panicking and selling at a loss, there's one strategy all investors can benefit from: dollar-cost averaging.

Averaging in to my position

I only bought a starter position in Crescent Point at $32 because I didn't know how low the oil price would go and how long it would stay low for. I still don't know. But what I can do is buy more shares at a lower price.

If I bought more shares with the same amount of dollars as before, I average my cost basis per share. If I buy double the amount of dollars, I will lower the cost basis per share even more to $28 per share. A 7% paper loss is much easier to stomach than a 19% paper loss.

Revisit your purchase goal

I originally bought Crescent Point for its high yield of over 8%. I was confident that it would be able to maintain the monthly dividend because it is the leader in its space.

It maintains a hedging program of 3.5-year periods that lock in the commodity prices, which then reduces the volatility of the company's cash flows. This results in a steady capital program for Crescent Point to grow its reserves and productions and protects its dividend.

As long as Crescent Point maintains that dividend, I'm holding on to my shares. It's important to monitor the company. Only when I believe the dividend is in jeopardy will I consider selling my shares.

Confidence in the company

If you have confidence in the company, you're likely to hold on. How well do you know the company? How does it make money? Do you believe in the future of the company? Does the company have a history of paying dividends? Has it ever cut the dividend?

Crescent Point has not cut its monthly dividend since 2003. During that time oil prices had hit US$30-40 twice. In fact, it increased the dividend from $0.17 per share to $0.23 per share. This shows that management has a long-term view and fully supports the dividend.

Conclusion

Investors should have a clear purchase goal in mind before buying shares in a company. Periodically, investors should revisit that goal to see if it's being met. Further, investors should only buy a company if they're confident in it.

Even when the price of the company goes down, investors should have the confidence to buy more shares if the company fundamentals are still intact.

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