2 Valuable Investing Lessons I Learned in 2015

Description

The year 2015 has come and gone, and its wake has left many Canadian investors poorer than they were a year ago.

The TSX Composite didn't do so bad during the first third of the year, but then it fell over the rest of 2015 as investors panicked about tumbling commodity prices. Oil's decline had the biggest impact on Canada's largest stocks, but declines in other commodities such as gold, silver, coal, and potash also weighed heavily on stocks in 2015.

Oil's decline hit stocks with any exposure to Alberta's economy hard. It wasn't just energy producers getting hit; any stock with a lot of exposure to Alberta's consumer fell anywhere from 20% to 50% in 2015. And it's obvious investors don't think 2016 will be a great year for the province.

In all that uncertainty investors were trying to do what we always do–make a buck. Last year wasn't the easiest year to do so, and 2016 might be bad as well. But I'm still confident in the long-term future of Canada as a whole.

Even if I did lose money last year, I made up for it by learning some valuable investing lessons. Here are two of the most important lessons I learned in 2015.

Commodities take a while to come back

In the latter part of 2014 I was aggressively buying shares in **Canadian Oil Sands Ltd.** (TSX:COS). At $10 per share, the company seemed like a steal on many different levels. I estimated that the replacement value of the assets alone was worth more than that. Plus, the company has more than four decades of reserves at current production levels.

The balance sheet isn't great, but I thought it was easily strong enough to make it through this crisis. And remember, back in December 2014, income investors were dealing with the news that Canadian Oil Sands had cut its dividend.

Looking at the situation at the time, I remember thinking that oil at $65 per barrel wasn't sustainable over the long term. Most North American sources weren't profitable at such a low level. And OPEC is always interested in keeping the price of crude high.

Oh, how wrong I was. As we go into 2016 with crude trading below $40 per barrel, I can easily envision a scenario where the commodity takes years to recover. Many higher-cost producers are pumping crude as fast as ever. They need to keep production going in a desperate attempt to generate enough in cash flow to pay the interest on the debt. It's a matter of their very survival.

I don't regret buying Canadian Oil Sands. There's obviously value there, or else **Suncor** wouldn't have made an acquisition offer. My mistake was assuming crude would recover in a year or less.

Debt can still be killer

I've always tried to avoid companies with excess debt. In 2015 I forgot about that rule.

I spent countless hours researching companies with good earnings and massively levered balance sheets. Many of these companies looked cheap from a price-to-earnings or a price-to-book value perspective.

And almost exclusively, these companies are down in price. The reasoning is simple. As the Canadian economy continues to deteriorate, the outlook for just about every stock in the country takes a hit. For a company with a solid balance sheet, this isn't much of an issue. But for a company riddled with debt, even a small decline in earnings can cause serious issues.

Cominar Real Estate Investment Trust (TSX:CUF.UN) is an example of a stock I would really like if the debt level wasn't so high. As of the end of September the company's debt-to-assets ratio was 53.8%. That's an improvement compared with last year when the number was 54.8%. Still, it's not terribly hard to find REITs trading between 45% and 50% of net debt-to-assets ratios.

The elevated debt combined with Cominar's worsening occupancy pushed down the company's share price, sending the dividend up to nearly 10%. When looking at adjusted funds from operations, Cominar's dividend takes up nearly 95% of those earnings. Thus, investors are worried the distribution is going to get cut.

I like Cominar's assets. The management team looks to be top-notch as well. But the debt just creates too many red flags for me.

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