The Worst Mistakes You Can Make in Investing

Description

Over the years, I've seen many investing mistakes made by others–and I've made my fair share of mistakes. Here's one story that I'll never forget.

Selling a quality company

A friend of mine who I will call Sue bought **Royal Bank of Canada** (TSX:RY)(NYSE:RY) at roughly $37 per share during the financial crisis of 2008-2009. It was an excellent price to buy the bank leader's shares.

Sue's starting yield was 5.4%. The shares later fell to as low as $25 as the market was caught in the emotion of fear. That was a dirt-cheap price!

She was too scared to do anything at the time, but at least she didn't sell her quality shares at the bottom.

Unfortunately, she felt compelled to sell for gains when her shares appreciated to about $53 per share as the economy recovered. Selling out of a quality company was her first mistake.

She was afraid to lose her gains. She also decided to buy the shares back if they fell to attractive prices again.

Buying a lower-quality company with winnings

At first, Sue was happy with her 43% gains (excluding dividends). However, she soon wanted her money to work for her. Of all the companies she could have bought with her Royal Bank proceeds, she bought **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), a company that she'd just heard about on the radio.

This was her second mistake.

The shares were about $40 per share at the time. Her rationale was that it had been $60 before, so it could get back to $60 for a 50% gain.

The shares eventually went on a multi-year slide and fell as low as $4 per share in the last year.

Sue failed to realize how different the two companies are. Royal Bank’s earnings were much more stable than Teck’s earnings, which are reliant on uncontrollable commodity prices.

As well, Royal Bank’s S&P credit rating is AA- today, while Teck’s is B+. The bank pays a 4.2% yield that’s expected to grow, while Teck has cut its dividend too many times in the last year.

Averaging down into a losing company

To make matters worse, Sue averaged down as Teck experienced its multi-year decline. To this day, she still holds on to the shares, believing they will eventually hit $60 again.

This was her third mistake.

Conclusion

Did I mention that Sue did all the above in her TFSA? So, if she sells her Teck shares for a loss, she can’t use it to offset capital gains like she can if she’d bought the shares in her non-registered account.

Sue made one mistake after another.

In hindsight, the right course of actions for Sue should have been the following:

- Buy Royal Bank at $37
- Buy more Royal Bank shares at $25
- Hold on to those shares for long-term gains and dividend growth

In fact, she can buy any quality companies she likes in her TFSA as long as they’re priced reasonably. After all, we get new TFSA contribution room every year.

Investors should record their actions and results, stop doing what loses money, and keep doing what works.

CATEGORY

1. Bank Stocks
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TECK (Teck Resources Limited)

3. TSX:RY (Royal Bank of Canada)
4. TSX:TECK.B (Teck Resources Limited)

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