Brexit: Don’t Sell Because Share Prices Fall

Description

When the share prices of their holdings decline, some investors sell because they’re afraid their holdings will fall lower. However, it’s common for stock prices to go up or down 3% in a day. So, in order to preserve their capital and to build wealth for the long term, investors shouldn’t sell just because share prices fall.

One should always look at the reason behind share-price declines. There could be company-specific problems, industry-specific problems, or economic problems surfacing.

For example, low oil prices affect the whole industry, but selective companies that are overleveraged will experience worse declines than others.

For example, **Kinder Morgan Inc.’s** (NYSE:KMI) share price is 52% lower than it was a year ago. The fact that it slashed its dividend by 75% at the start of the year didn’t help with shareholder confidence either.

Shareholders then need to determine if low oil prices will remain, and if so, if it’s worth it to hold on to the shares of energy companies. Some energy companies such as **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) pay safer dividends than others.

Is it a temporary or sustaining problem?

Investors should determine whether any problems experienced by a company will be lasting or not. If the problem is temporary, then lower share prices may be an opportunity to buy more shares of excellent companies.

The financial crisis of 2009 was damaging to shareholder value and many companies. However, the damage was temporary for solid companies, and it was a great opportunity buy more shares in those companies.

For example, investors could have bought more shares of **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) in 2009 after it fell almost 50% from a 52-week high, especially after noticing that the bank’s earnings per share only fell 15% in the fiscal year 2008.

Much of the 50% fall in share price was contributed by fear, and the shares fell to a point where they became very attractive. In fact, investors could have bought the shares at $19 per share with a starting yield of 6.2%. Today, seven years later, the yield on cost of that investment would have become 11.5%.

Conclusion

Like the financial crisis, which was a temporary factor pushing down the stock market, I believe the Brexit situation is also a temporary factor.

As a general rule, investors shouldn't sell companies for less than they're worth. If excellent companies' share prices fall to attractive levels, investors should buy more shares.

Remember that it's impossible to catch the bottom. So, a good strategy is to dollar-cost average into a position over time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:KMI (Kinder Morgan Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TRP (Tc Energy)
4. TSX:TD (The Toronto-Dominion Bank)
5. TSX:TRP (TC Energy Corporation)

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kayng