Are Investors Focusing Too Much on the Short Term?

Description

Investing is much easier when investors focus on the long term rather than the short term. However, the temptation to try to turn a profit quickly can often be too enticing for some investors, which can lead to speculation and too much emphasis on the short term.

Profits and sales aren't what a stock is measured against anymore. Instead, it's whether the company met expectations or raised its guidance that often determines whether the stock is going to get a bump in price on earnings day. The problem is that the focus then becomes too much on the short term and not enough on meeting long-term objectives.

Stable, long-term growth doesn't translate into a stronger share price

In its most recent quarter, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) had a great performance that saw its profits rise by 17% as it beat expectations, but that still wasn't enough for the share price to see much of an improvement.

The stock has been flat in the past month as investors have become so accustomed to the company's impressive performance that unless TD significantly exceeds expectations or comes up with some sort of novelty, it won't see much of an increase in share price.

While bank stocks like TD are continually being valued at modest multiples of around 13 times their earnings, higher risk investments like cannabis have been taking off since last year as investors continue to pay big premiums on speculative buys rather than stocks with stable, long-term growth.

Speculation appeals to short-term investing, which draws in a lot of buyers looking to get rich quick.

In a recent interview, Warren Buffett was critical of this type of short-term thinking, stating, "When companies get where they're sort of living by so-called making the numbers, they do a lot of things that really are counter to the long-term interests of the business."

A great example of this type of mentality is what we witness when companies report adjusted earnings. Companies aren't measures against accounting earnings, but instead against non-GAAP measures of income that can make it difficult to compare one company against another.

These adjusted earnings calculations give companies an incentive to push as many expenses into adjustment accounts as possible in order to help manage the numbers and to meet expectations. The big losers in all of this are investors, as the quality of the earnings is weakened as a result of this.

Why cash flow might be the most important statement for investors to review

The income statement had many opportunities for manipulation, but the statement of cash leaves less ambiguity and could be a much better option for investors to conduct their analysis on. Cash flow is ultimately what will keep a company running, which can provide valuable insight into how well a company's funds are being managed.

Pot stock **Aphria Inc.** (TSX:APH), for instance, has generated just $1 million in cash from its operations in the past year despite being an efficient, low-cost producer in the industry. In the trailing 12 months, it has accumulated negative free cash flow of $185 million despite posting a profit of $32 million during that time.

Despite an impressive income statement, the company's statement of cash flow should raise some concerns for investors.

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Author
djagielski