3 Massive Mistakes Canadian Investors Make

Description

Even though indexes like the **TSX Composite** and **S&P 500** continue to churn out decent returns year over year, many investors are seeing their retirement savings languish. They're just not doing as well as the indexes, especially ones located in the United States.

default watermark

Much of this underperformance can be attributed to investor behaviour. Often, individual investors will do things that are detrimental to their long-term financial health, like selling a struggling stock at the bottom or withdrawing retirement savings to go on a trip.

I find it helps to compare investing to playing golf or tennis. Skilled tennis players can be aggressive and win points. Good golfers can attack a tight pin. Amateur players are more likely to hit the net or the bunker than a wonderful shot. Investing should be approached the same way. Instead of trying to win, investors should focus on not losing.

Here are three mistakes investors should avoid at all costs.

Focus on yield

Every investor has done it. They've plunked down cash on some high-yield stock, viewing the payout as secure.

Cominar REIT (TSX:CUF.UN) is a perfect example. Back in 2017, when shares had an eye-popping 10% yield, I'd warned investors to stay away. The company simply wasn't earning enough to cover the payout.

Later that year, the inevitable happened. Management finally threw in the towel and slashed the dividend. Then, earlier this year, the company cut its payout again. Put it all together, and Cominar shares pay out 49% less than they did 18 months ago.

Plus, shares are fallen 22% in the last year alone. That is not the kind of double whammy you want in your portfolio.

High-fee mutual funds

Many investors don’t want to take an active role in their portfolios, preferring to leave it up to professional managers. There’s just one problem: that expertise costs a lot.

Say a fund can generate a gross return of 8% annually, but charges 2% in fees. That 2% doesn’t look like much on the surface, but it translates into 25% of returns. This really magnifies itself over a 40- or 50-year investing horizon.

Investors holding expensive mutual funds can potentially lose hundreds of thousands worth of excess fees over their investing lifetimes.

Too much selling

A long-term investor in a stock used to own the same companies for decades. Nowadays a long-term investor might only hold for a year or two.

Often, these folks will sell at the first sign of trouble, convinced a dominant company has somehow lost it based on a few weeks of trading. **TransCanada** (TSX:TRP)(NYSE:TRP) is one such example today. Shares are down 16% so far this year because of higher interest rate fears, among other factors. Meanwhile, its oil and natural gas pipelines keep on delivering steady earnings, which are then reinvested into other growth projects. The business model has worked for decades and will continue to do so.

default watermark

Besides, investors are getting a 5.3% dividend to wait, which is a fantastic consolation prize.

I’m not confident this will correct itself anytime soon, which is why investors should embrace a different attitude. They should buy shares in the stock exchange. **TMX Group** stands to benefit every time a stock is traded, since it gets a share of the fees generated.

Stock exchanges have a natural moat. Think of them as the toll bridges of capitalism. Eventually, most large companies end up publicly traded. They pay handsomely for the privilege of accessing easy capital.

The bottom line

Being a successful investor won’t come easy. It’s something even the smartest minds out there struggle with. Minimizing mistakes like trading too much and chasing yield will help you get there.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/06/30
Date Created
2018/10/25
Author
nelsonpsmith

default watermark

default watermark