Investors: You Might Be Committing This Big Investing Sin

Description

Back in the 1980s and 1990s, one of the most infamous pieces of investing advice was Peter Lynch telling folks to invest in what they know.

Lynch got a lot of attention for this advice, and it’s easy to see why. It’s a great way to get regular investors curious about the practice. And although the average person can’t accurately read a balance sheet or a profit/loss statement, they can still accurately identify a fantastic product. That’s a great start.

But sometimes, investors who are following this advice can take it too literally. They can let their own personal judgement cloud an otherwise lucrative investing thesis. Let’s take a look at how I missed out on a couple of great stocks because of this.

My Tim Hortons experience

I live in a small town that only got its first Tim Hortons restaurant about five years ago. We’re a little behind the times.

I’m not sure if my expectations are too high or maybe deep down I just don’t like the chain, but it seemed like every time I stepped foot in my local restaurant, something went wrong. I’d be forced to wait for at least five minutes in line, while cars were zipping through the drive-thru. They’d be out of the soup or donut I wanted. The staff didn’t seem to hustle. I’d get my food in a to-go bag even though I specified I wanted to eat in.

Although I’m the first to admit the mistakes were small, they’ve really added up. So, I stopped going and don’t really go when I’m in other communities, either.

I took my petty grievances to the next level when taking a closer look at **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) stock. Despite all the good things the company has going for it — including the acquisition of Popeyes (and the potential of acquiring more chains in the future), the huge potential to expand Tim Hortons around the world, and the company's attractive price-to-freecash flow ratio — I just couldn't pull the trigger because of my experience with my local restaurant.

That was a mistake. Shares are up approximately 85% in the last three years, and the company has more than tripled its quarterly dividend since 2016.

Another example

I became aware of **MTY Food Group** (TSX:MTY) and its ambitious plan to acquire as many fast-food brands as possible back in 2015 or so.

Unlike my experience with Tim Hortons, I'm mostly impressed when I eat at an MTY brand. I get Manchu Wok Chinese food a few times a year. Mucho Burrito is my go-to choice when I'm in a nearby city. Taco Time is consistently delicious. And whenever a buddy and I are in a mall that has one, Jugo Juice is our treat of choice.

But despite my positive experience, I still didn't pull the trigger on the stock because of little things I saw about the chain that troubled me. I thought it would be much more difficult to run a company with dozens of brands instead of a few. I noticed MTY locations in food courts I visited weren't doing quite as much business as more established chains. And very few of the company's brands are instantly recognizable.

So I passed on the stock. And in that time shares have doubled.

Whoops.

The bottom line

Investing in what you know can be a great strategy, but it's easily possible for investors to take it too literally. I know I sure did.

Your personal experience is important, but the overall numbers are a far bigger factor. Your bad experience might be due to the staff having a bad day or a local operator who needs a little more training. Or maybe your expectations are too high.

Look at the whole picture and then make your investing decision. If I would have done that with Restaurant Brands or MTY Food Group, I'd be richer today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:MTY (MTY Food Group)
3. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

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