Investors: Avoid Making the 2 Most Common Investing Mistakes

Description

Do you ever kick yourself for either holding on to your losers too long or selling your winners too quickly?

If so, don't beat yourself up about it, because those are the two most common investing mistakes that stock investors make.

You can come back from it, and you can set up some rules that will allow you to do better next time.

Technical analysis

While I am not a technical analyst, and I base my investment decisions on fundamentals, using technical analysis to guide our timing once we have made a decision based on fundamentals is a useful tool.

We can look at moving averages, short term and long term, and the theory is that when the short-term moving average crosses below the long-term one, it is time to sell, as the downside risk is great at this point.

Selling too early

As an example, let's take a look at **Labrador Iron Ore Royalty** (TSX:LIF) — a stock that I sold too early. While my return was outstanding, it could have been even better if I just held on longer.

So, I bought it at around $13, sold at roughly $23, and it is now trading at more than $32.

I can look at this as a failure or as a success. It all depends on perspective.

On the one hand, I almost doubled my money (+77%). On the other hand, I could have made a 150% return as of today's price.

My reasons for selling were logical enough. The iron ore industry is a very cyclical one. China's prospects were seemingly fading, and with a profit of 77% in a few short years, I felt like the downside risk began to exceed the upside potential.

Hanging on to losers

Hanging on to losers is another common investing mistake, which often leads us to be trapped in a "value trap."

For an example here, the energy sector is currently filled with stocks that have been losers and that investors may have held on to for too long. I have fallen into this trap as well.

In my opinion, these stocks are trading at cyclical lows, and they are ripe for a big turnaround when the sector improves.

Yet **Precision Drilling** (TSX:PD)(NYSE:PDS) is a stock that I have held on to for too long due to its technological leadership and its strong market share.

This was a miscalculation of the macro environment and, in hindsight, my money would have been put to better use elsewhere. And while Precision's glory days may be slowly returning, the opportunity cost of holding on to this stock has been big.

Again, we can use technical analysis to guide us.

In summary

We are all going to make mistakes. The key is to learn from them and do better next time.

And as long as you are right more often than you are wrong, you are probably in good shape.

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1. Energy Stocks
2. Investing

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2. TSX:LIF (Labrador Iron Ore Royalty Corporation)
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