How to Get Over a Bad Investment

Description

Long-term investing can help investors retire with more than enough, but what should you do with bad investments?

Every bad investment is different and should be assessed independently. Using **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) stock as an example, we'll show how investors can get over bad investments.

Maxar stock has fallen 92% over the last five years. There are three things that investors can do.

Let Maxar stock recover over time

Shareholders can sit on the Maxar shares, do nothing, and wait for a recovery. I've written a number of articles on Maxar with the latest article giving an overview of why Maxar stock has performed so poorly.

A summary of that being the company took on a lot of debt to make acquisitions. What made things worse was when the acquisitions turned out not to be accretive but the exact opposite! Losing one of its satellites was another boulder that weighed down the stock.

2018 was a horrible year for Maxar as it resulted in a net loss of US$1.26 billion, but its revenue was US$2.1 billion, which indicates that there's a market for Maxar's space technology solutions.

At the end of 2018, Maxar had about US$3 billion of net debt. However, its adjusted EBITDA was US$472 million. That's a net-debt-to-EBITDA of 6.4, which suggests that Maxar remains a risky stock.

If Maxar shows the ability to reduce its debt levels to more acceptable levels over the next three years, the stock should recover to much higher levels.

Learn from the bad investment

Studies show that there’s a high rate (at least 70%) of failure for acquisitions and integrations. So, perhaps the best way to avoid a huge loss is to avoid companies that are making an acquisition, even though there are examples of successful mergers such as the one between **Pembina** and Veresen.

Invest in quality stocks at good valuations

Don’t be deterred by bad investments. If you are genuinely interested in investing, learn as much as you can about it and aim to buy quality companies when they’re trading at good valuations — and you should come out with satisfactory overall returns.

As you aim to buy great businesses over time, your bad investments will make a smaller and smaller percentage of your portfolio and you’ll still come out way ahead than if you never invested in stocks at all.

Foolish takeaway

Even the best investors make bad investments sometimes. The strategy is to buy, hold, and add to your winners (likely great businesses). Before long, your winners will more than make up for the losses in the bad investments.

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