Are You Making This 1 Big Investing Mistake?

Description

Investing your money in stocks can be a good way to help build for your future and retirement. The problem is that there are many pitfalls that could derail your overall returns. One in particular that can be troubling is when it comes to stocks that have been underperforming. No one wants to admit defeat or that they made a bad decision, and that can sometimes lead to some very poor and irrational decision making.

One of the biggest mistakes that investors can make is simply holding on to a losing stock for too long. The challenge for investors when a stock has fallen in value is to get rid of it once it looks like it's headed for trouble and put that money into a stock that might have better prospects. After all, once you've hit the sell button, you've effectively made those unrealized gains very real, and there's no turning back.

By holding on, you can keep on hoping that things will turn around and that you'll sell the stock once it gets back to your breakeven point. The danger is, that day may never come, and you could wind up effectively married to the stock, for better or worse.

A good example of this is almost any oil and gas stock over the past five years. **Cenovus Energy** (TSX:CVE)(NYSE:CVE), for instance, has lost more than 60% of its value over the past five years when the industry started collapsing. In 2017, the stock hit a new all-time low. And while it would have been an attractive buying opportunity, for those investors that held on the for the ride, it meant a significant part of their wealth had been eroded away.

Investors need to re-evaluate where the stock is today

I'm sure there are still some investors are holding on, still believing that a recovery will happen and that Cenovus will rise back to where it left off at more than $30 per share. The problem with that logic is that you would have to believe that Cenvous is a good bet to triple in value, and that's not something I think is rational to expect for any oil and gas stock today.

While I wouldn't be surprised if, over the next couple of years, Cenovus could climb back to over $20, getting higher than that could be a stretch. However, those that bought at $30 might see that price as an anchor point that the stock will return to once the industry picks up. There's, unfortunately, no reason to expect that to be the case, since conditions in the economy and in the industry were much different in 2014 than they are today.

By holding on to a stock that has lost so much in value, investors not only hold on to the faint hope that the stock will one day recover, but in doing so miss out on potential returns elsewhere. Unless you believe a stock like Cenovus, or any other company, for that matter, has the best chance of rising in value from where it is today, then it shouldn't belong in your portfolio just because it was there years ago.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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