



## Long-Term Investors: Avoid This Easy Mistake to Improve Your Returns

### Description

When analyzing companies and looking at numbers, it's common for investors to have to estimate future numbers or earnings and make assumptions. Whether you do this in your head or you make spread sheets and detailed forecasts, every investor does it one way or another.

It is extremely important, though, that when estimating future numbers, you estimate on the conservative side. I read this advice a long time ago in a Warren Buffett book, and it really made sense to me.

If you are overly optimistic with your expectation for future revenue and earnings, you are only setting yourself up for failure, because the chances that the company hits on the optimistic numbers are not that great.

Even if nothing bad happens, it will be quite difficult to hit optimistic targets, and if it doesn't hit your estimated target, the stock may never reach the valuation you thought it could get to.

In addition, having optimistic targets will allow you to justify overpaying for something that wouldn't look as appealing with conservative estimates.

Consequently, if you keep your estimates conservative, not only will there be plenty of upside potential, but it will protect you and give you a better margin of safety if something bad does happen, such as a shutdown in production or major write-down in assets.

Making conservative estimates and estimating future returns may make you pass on some stocks that you would have otherwise bought, but this shouldn't be seen as a negative.

It will help investors to weed out those stocks that are right on the fence, and better focus your portfolio on the key stocks that actually have tons of room to grow and a larger margin of safety.

The best stocks will still post impressive numbers, even if you calculate them conservatively.

A good way to start is always taking the lower estimate when companies issue guidance, this will get

you used to estimating conservatively and figuring out valuations that way.

A top stock for long-term value investors is **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Suncor is one of the best long-term stocks in Canada and the best investment in the energy sector. Its integrated operations make it highly stable, and its incredible management continue to earn consistent profits.

Looking at the last five years, its lowest P/E was around 11 times. In addition, the company has grown its earnings per share by roughly 96% since 2014 or a compounded annual growth rate of more than 16%.

Assuming it can conservatively continue to grow its earnings per share by just half that, at 8%, in five years the company's earnings per share would be roughly \$5.30. Multiply that by the lowest possible P/E ratio, and that comes to a stock price of more than \$58.

If you were to multiply it by the highest P/E ratio it's had in recent times, the projected price would be closer to \$110. This gives investors a considerably higher estimate, and though it's still possible, it is far less likely.

By estimating conservatively, Suncor still posts potential returns that are respectable, and if they don't work out, the downside will be smaller.

You can also use this calculation for the dividend. [Suncor](#) has grown the dividend by more than 50% since 2014 and at a CAGR of nearly 10%. Assuming it continues to grow its dividend at just 5% for the next five years, the dividend would pay out almost \$2.

While these estimates may not work out and the company may face headwinds in the short term, they are much more conservative than the majority of estimates, which will keep you disciplined when buying. This way if anything does happen, your downside will be minimized.

Keeping your estimates conservative will still yield you the best companies when searching for new stocks, what it does is provide you a margin of safety on your investments, in case expectations aren't met or something unforeseen happens. This is the best way to keep yourself disciplined — to only buy stocks when they are actually conservatively cheap.

## CATEGORY

1. Investing
2. Stocks for Beginners

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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