Long-Term Investors: Beware of This Major Mistake That Could Cost You Thousands

Description

Looking at a company's finances and analyzing metrics is always an important step to valuing a stock. Just looking at the numbers though, can paint a bit of a biased picture, especially when there's no accompanying narrative.

Investors may see certain changes over time and assume it's for one reason or another without getting a clear and concise reason verified by the company.

Many investors take the time to do the research, but end up only looking at the numbers of the company, which could be a huge mistake.

If you only get one side of the story and come to a conclusion without knowing the full scope of the situation, it could be a major mistake that could cost you thousands, whether through capital losses or missed capital gains.

In order to know exactly what's going on, investors should review all of the management's discussion and analysis (MD&A) statements issued alongside the financial statements.

These statements not only explain all aspects of the financial statements and quarterly operations, but also explain why a company may have done what it did and what its future plans are going forward.

In essence, it gives you a look right inside the brain of the company, while still looking at the financial numbers to see whether everything makes sense.

If you were to look only the financial statements of a stock like **Peyto Exploration and Development Corp** (TSX:PEY) the story would look much different than the reality.

Peyto is a natural gas producer with assets in Western Canada. It's a top stock because it's one of the lowest cost producers in Canada, but due to the challenging commodity environment the last five years, its stock has been decimated like the rest of its peers.

Just looking at Peyto's numbers, it may look like the company is struggling, it has been continuously decreasing its production rates and has trimmed its dividend multiple times. As well, its debt load appears to be unsustainable.

In reality, Peyto is one of the best run companies in the industry and everything it's doing, it's doing for the good of the company long-term.

When the commodities sector inevitably rebounds, Peyto will be a cash cow, so the decrease in production you see, is Peyto deciding to leave that gas in the ground to defer the sales to the future, when it believes it can sell it at a reasonable price.

It has basically cut as much production as it can, keeping the ability to pay its debt down and continue to fund the dividend, which yields nearly 9% today.

It continues to bide its time, managing the operations and keeping the company's cash flow positive, while not giving up any future opportunity cost. The company's prudent hedging and production management will be key for long-term investors and reward those who are patient enough to wait.

Buying Peyto today will get you a company with a five-year average return on equity north of 10%. In addition, its book value is roughly 0.25 times, giving it an earnings yield near 40%, and making it one of the cheapest stocks on the TSX.

It's important to make sure you know the entire story as an investor and do your full due diligence. Finding statements from management and understanding all their decision is key for investors.

It can be easy to think you know what's going on just by studying the numbers and doing calculations, but eliminating the narrative could cause you to make a major mistake or miss out on a huge opportunity.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)

PARTNER-FEEDS

1. Business Insider
2. Msn
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