3 Costly Sins Investors Should Never Commit!

Description

There are many ways investors can generate long-term growth but there are also many ways that they can jeopardize their portfolios as well. Below are three very dangerous things that investors can do that can get in the way of maximizing their portfolio's returns:

Investing for the sake of investing

This is where investors can make many big mistakes. If you're not sure what to invest in, that's a sign that you likely need to spend more time doing research before making a decision.

It's all too easy to rush the decision-making process and invest in a stock for the sake of just having an investment in place. In some cases, however, such as investing in a top bank stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), that may not be a bad move. Long term, the stock is a safe bet to continue producing strong profits and the stock rising in value.

However, in other cases, it could expose you to a lot of risk. Investing in cannabis, for instance, has proven to be a very risky venture and before investors decide to put their money into that sector they should do a careful analysis of not just the industry but the individual stock(s) that they are looking to invest in as well.

In some cases, the best move might simply be to not make an investment until conditions improve, which may be the case for cannabis today. Investors shouldn't be in a rush to buy shares of a company as doing so could lead to less-than-optimal results.

Being too greedy

Conventional investing advice will tell you to hang on to winners and sell losers. However, unless you're like Warren Buffett and are looking to hold investments forever, chances are you'll decide to sell your shares at some point in time – and hanging on for too long can be costly.

One of the most dangerous things I've seen from investors is the belief that a stock that's been soaring is going to continue doing so indefinitely and they get caught up in the hype.

That simply isn't a likely scenario, however, as corrections can and will happen. **Canopy Growth**, for instance, wasn't worth a market cap of $20 billion, and those hanging on with the hopes that the stock would continue soaring have likely been burned very badly.

If you've earned a very good return on a stock and know that it's become overvalued, selling and locking-in your returns is never a bad idea.

For value stocks like TD Bank, this is an unlikely scenario to happen given that the stock is typically grounded at a price-to-earnings multiple of around 12-13.

For high growth stocks, however, valuations could potentially get out of control, which is when investors should be on high alert.

Neglecting fundamentals

Value investors are less exposed to the risks of a big correction happening because they've invested in stocks that are based on strong fundamentals.

Going back to a stock like TD, for example, it's a stock that isn't likely to see a big drop in value simply because it's not going to be dependent on a growth metric; the bank has a consistent stream of customers that will ensure its financials will remain predictable and strong for the foreseeable future.

While there might be bumps along the way, the company will remain a strong investment over the long term because of its strong business model and the impressive margins that allow TD to continue paying and growing its dividend over the years.

With investments that aren't grounded by fundamentals, there's a lot more uncertainty as to what they should be worth, which is why they sometimes see a lot more volatility in their share prices.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
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