



My Worst Investment Decision in 2019

Description

Disbelief, outright denial, and a fear of booking losses too early can be costly mental biases as far as investment decision making is concerned, and resultant capital losses may prove more permanent than we desire.

These mental states may have significantly influenced a hold decision on Canadian cannabis firm **CannTrust Holdings** (TSX:TRST)(NYSE:CTST) when everyone else was bailing out of the scandal hit stock. The share price plunged 22% on July 8, 2019, as investors freaked out after the breaking news that the company had grown product in previously unlicensed rooms for six months.

Instead of rushing to the exits like everyone else, I'd [recommended a hold](#) on the stock based on the data points that the rooms were subsequently licensed by Health Canada and that the sold product was processed in high-standard licensed facilities, so there was minimal risk to product quality, and the company could potentially get away with fines and penalties.

After all, management had promised that they were already taking remedial action, so the damage could be minimal.

I was very wrong.

Worse news piled onto the stock, as it was later alleged that even the CEO, the most key senior executive, was also involved in the scandal and had directed subordinates to "proceed as planned" in a direct disregard of laws and regulations. Sales were halted, licences revoked, and now the company is battling to meet filing deadlines to remain listed on equities exchange markets.

In hindsight, it was better to have fled when the stock still traded around \$4.73 on July 9 last year than to hold out till shares hit a low of \$0.99, or 79% lower, by December. The losses could have been minimized.

What else could have influenced the hold decision?

As humans, we have mental and emotional biases, and our investment decisions aren't always as scientific and well reasoned out as we portray them to be to our peers.

There's this fear of losing money, and in this case, there was a sudden 22% one-day loss to be booked after the breaking news, yet there was some hope that the situation could be managed better.

Behavioural finance has identified and termed this fear *loss aversion*. As investors we aren't necessarily as concerned about the risk on an investment as the traditional economists had theorized, but we tend to fear losses more than we love capital gains.

Due to loss aversion, the average investor will hold on to losing positions for much longer than necessary in the hope for a rebound (to avoid booking losses), and we quickly book small profits way too soon to avoid losing them.

The result is a significant underperformance in the portfolio that could make a passive index investor look like a genius (and then prove Warren Buffett correct in his wager against active investment). Ironically, though, doing nothing in this case cost more money than just selling on the news and asking questions later.

Foolish bottom line

At times it saves to run on the very first signs of trouble, but rushed decisions can also be disastrous in most circumstances. Investors who quickly took losses on **Aphria** during the LatAm acquisitions scandal may have avoided them just by holding through the turmoil.

That said, the CannTrust scandal is something else, and it has regulatory technicalities like licences revocations and potential delistings from exchanges that could sink the ship faster than investor lawsuits, potential fines, and penalties for wrongdoing.

Bailing out on the bad breaking news was the best call to have been made and one could have bought back into the ticker as a speculative contrarian bet, but it wasn't as obvious back then.

The big question now is whether CannTrust Holdings stock price can recover in 2020. Maybe we should discuss this interesting part next, and take care to speculate with only a small proportion of your capital this year.

Happy New Year, Fools.

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