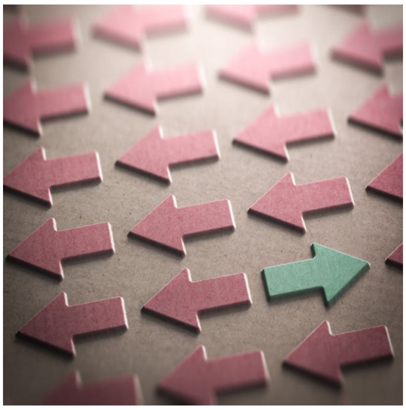

Contrarian Investors: Don’t Make This Huge Mistake

Description

Investing is hard. What makes it so difficult is the fact that you need to have a long-term plan and you need to stick with it for the long term. My biggest mistakes happen when I fail to stick to my plan. That’s right. When you decide you are going to invest as a contrarian, you need to put your plan into place with a small percentage of money and stay the course.

A hard lesson

The best example I have of having a plan and failing to stick with it is the current gold situation. As far back as 2014, I was starting to build a position in gold. If you remember, gold fell from about $1,900 down to around $1,100. The miners were collapsing as well. Many of them were still operating on costs more attuned to $1,800, resulting in debt issues and cut dividends.

Back then, I ascribed to the theory that excessive money printing would lead to higher gold prices. The stocks would rise with the price of gold, I thought. But I got caught up in watching stock prices rather than waiting for the thesis to play out.

The lesson learned

In 2020, with the world in chaos and gold prices once more near an all-time high, it is easy to look back and think about how stupid the move to sell was. Don’t get me wrong, it was the wrong decision. But think of how long those two to three years were.

A case in point

Let’s say, just for argument’s sake, you bought **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) in early 2015. It was trading around $2 a share at the time. Then let’s say you held it until about the beginning of 2017, around a two-year hold. During that time, the gold run didn’t happen. Tech stocks were flying. Volatility was slow and gold was relatively depressed. After waiting years for the big move to happen, you lock in a respectable gain and sell the stock for about $5 a share — a pretty respectable gain.

Unfortunately, a couple of years later, gold begins to move up. You sold the stock too early, because you were waiting on the price of the stock, rather than for your thesis of higher gold prices to take off. Once you see gold prices moving, the stock takes off to hit highs of around $70 a share. Your mistake wasn’t that you locked in a gain of about 300%. Your mistake was selling before the thesis of higher gold prices played out.

The point is this, though: I thought there was a very good chance, back in 2014, that these stocks could generate outsized returns at some point in the future. Therefore, I should have done the following:

1. I should’ve taken a small amount and put it into this plan. 2-10% of my portfolio would be enough to get a big gain if it worked out, but not enough to worry about if it sat there for years.
2. Stick with the plan. Let it ride. There is no way to know when, or if, it will work out. If the odds are in your favour, though, as it was for higher gold, you could make outsized returns.
3. Remember, there is no set time frame. The money you put into these ideas could be dead money for a long time, or even forever. That is what happens when you take a contrarian bet.

The bottom line

I hate to say it, but the time to build a contrarian bet in gold has passed. It is still a good investment for the foreseeable future, but the “easy money,” as it is often called, has been made. Investing in gold is wise but is no longer contrarian.

Fortunately, there are still contrarian plays where you can build a bet. The most obvious is oil. Stocks are cheap and are very much out of favour. If you can stomach the volatility, there is money to be made. Another area that has become exposed as a contrarian play during the lockdowns are REITs, especially those focused on office and retail properties.

Henry Ford once said, “The only real mistake is the one from which we learn nothing.” Well, I made a mistake not keeping money in gold, holding it for years until it began to perform. I will not make that mistake again.

CATEGORY

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

Date
2025/08/24
Date Created
2020/07/23
Author
krisknutson