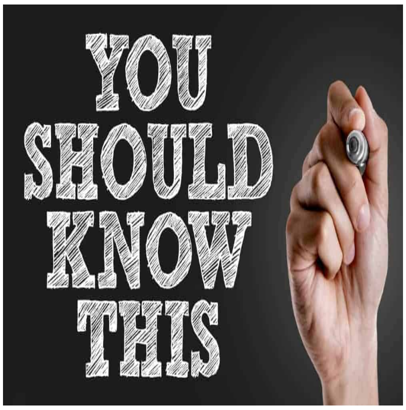

Beginner Investors: A Devastating Mistake You Should Avoid

Description

We've witnessed quite a few analyst price target upgrades over the last several months. For beginner investors, such price target hikes on high-momentum names can cause one to feel euphoric or greedy on a given name or the markets in general. Certain tech-leveraging hyper-growth stocks may be hard, if not nearly possible, to value (even for the professionals) with any degree of accuracy.

For a firm like **Shopify**, with wildly fluctuating growth rates, tailwinds, catalysts, and new opportunities that stand to change the long-term story, coming up with a fair-value estimate can feel like throwing darts at a board.

Many beginner investors think they can blindly follow the consensus price targets on a given name, without putting any analysis of their own.

Blindly following price targets for upside is a dangerous game. Without your own long-term investment thesis, you'll struggle to differentiate between buy-the-dip opportunities and fully justified pullbacks. And you'll also likely be tempted to follow the herd into or out of stocks, typically at the worst moments, as many other beginner investors tend to also pay a lot of merit to widely publicized consensus price targets.

Beginner investors: Blindly following consensus analyst price targets can be harmful to your wealth

While it may be tempting to follow some sell-side analyst who probably knows a lot more than you do, it's worth remembering that such folks tend to feel the pressure to keep raising the far on their full-year price targets, typically after a high-momentum name has already moved above and beyond their original estimates.

And once the momentum fades and the stock falls back to Earth? Don't act surprised if analyst price target cuts come in after a significant downside move.

As you may remember in the lead-up to the Dot-Com Bust, many popular Wall Street analysts were rating various high-flying stocks as a “buy” right up until everything came crashing down. You see, widely followed sell-side analysts are always under the public spotlight. So, it’s tempting to follow the herd or run the risk of looking like a fool (that’s a lower-case *f*) for maintaining a price target that varies widely from the current market price of a security.

When it comes to the investment world, though, sometimes you’ve got to be willing to look like an idiot over the near term if you desire to outperform over the long term — the time horizon that *really* matters. Here at the Motley Fool, we’re all about investing in the long term, and we’re not afraid of looking foolish over the near term if we spot long-term opportunities we believe in, even if such opportunities are unrecognized by Bay or Wall Street.

Foolish takeaway

If you’re having difficulty understanding a business, don’t feel obliged to swing at a pitch. As Warren Buffett always says, investing is a game with “no called strikes.” Find an attractively valued wonderful business you understand, form a long-term thesis, and don’t pay too much attention to consensus price targets because, like it or not, such information is available to all beginner investors, and they can cause you to follow the herd unknowingly.

CATEGORY

1. Investing
2. Stocks for Beginners

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/02
Date Created
2020/09/17
Author
joefrenette