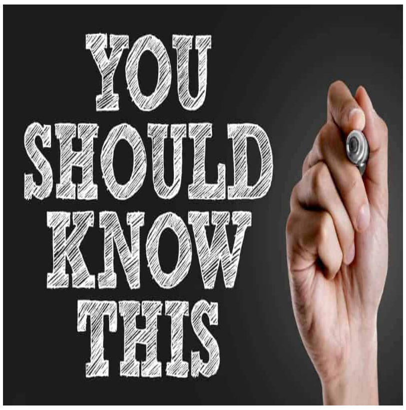

5 Investing Lessons From Peter Lynch

Description

Peter Lynch is a famous fund manager. One of his victories is outperforming the **S&P 500**. I have compiled five lessons from Peter Lynch that you can incorporate into your investing journey.

Lesson 1: Invest in what you know

Peter Lynch's investment philosophy is to invest in what you know. It looks simple, but many investors fail to follow it. Take the example of meme stock **BlackBerry** (TSX:BB)(NYSE:BB). Many investors jumped in to take advantage of the short-selling fever without knowing what that meant. And the outcome was losses. Remember, investing in stock is like investing in a business, and if you know the business will grow, all other news and price fluctuation are just noise.

You must have seen a growing trend of online buying for the last few years. You buy more online and also recommend it to your friends. Instead of **Amazon**, niche retailers attract you. This makes a buy case for **Lightspeed Commerce** (TSX:LSPD)(NYSE:LSPD) as it is the omnichannel platform provider.

The exquisite gift shop can now deliver to your friend's place, or you can order your favourite waffles at the touch of a button. This omnichannel business can scale as it saves time and sometimes money for loyal customers. You know what to expect from the company, and as long as it meets expectations, you can stay invested.

Once you have selected the stocks you know, the real challenge lies in managing your portfolio. That is the focus of the other four lessons.

Lesson 2: Don't diversify solely for the sake of diversification

Buying just a few stocks puts you at risk. Hence, investment experts suggest diversifying your portfolio to offset one's losses with other's profits. But Lynch advises investors not to diversify solely for the sake of diversification. Investing only in top stocks for the sake of diversification will lead to unhealthy diversification because you might land up buying stocks you don't understand. It is like swimming the unchartered waters without training. Do your research, understand the company, the market, the management, and the stock. If it aligns with your investment sentiments, invest, or let it go.

Don't fear missing out on a rally. No one can grab all growth opportunities, and you shouldn't even try doing it because buying and selling stocks comes at a price. Excessive diversification could park your funds in loss-making shares, and you might be left thinking that your money would have gotten better value at a diner. At least it would have bought you cheeseburgers for an entire month.

Lesson 3: Understand the price drop

I keep reiterating: *Don't just sell or buy the stock just because the price dropped.* Rather, you should understand the cause of the dip.

For instance, **Facedrive** (TSXV:FD) stock dipped almost 92% from its February peak because the company lacks strategy. Its core business of ride-sharing has taken a backseat, and it is now delivering food. The management doesn't have any strong roadmap and is going wherever it sees the money. Facedrive is an example of what over-diversification does to your portfolio. This is *not* a price dip you want to buy.

Instead, a price drop of **Magna International** stock is a buy as the dip is because of a semiconductor supply shortage. Once this shortage is over, Magna is ready to ride the electric vehicle (EV) wave.

Lesson 4: Stay invested in 10-bagger stocks

From his liking for baseball, Lynch brought a 10-bagger approach to stock investing, which means buying a stock with the potential to grow tenfold and stay committed to it for the long term. Hence, I always suggest holding Lightspeed stock as it is a 10-bagger stock. The stock has already surged seven-fold since its initial public offering in March 2019. Its three-pronged strategy to grow across geographies, verticals, and technology solutions would continue to drive the stock price to new highs.

Lesson 5: Review your portfolio regularly

Don't buy and forget. Review your portfolio at regular intervals. This brings us back to the first lesson: *Know what you own and why you own it.* Stay invested in companies that stick to their fundamentals and exit those that have veered off track.

CATEGORY

1. Investing
2. Personal Finance
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1. NYSE:BB (BlackBerry)
2. NYSE:LSPD (Lightspeed Commerce)
3. TSX:BB (BlackBerry)
4. TSX:LSPD (Lightspeed Commerce)
5. TSXV:STER (Facedrive Inc.)

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pujatayal