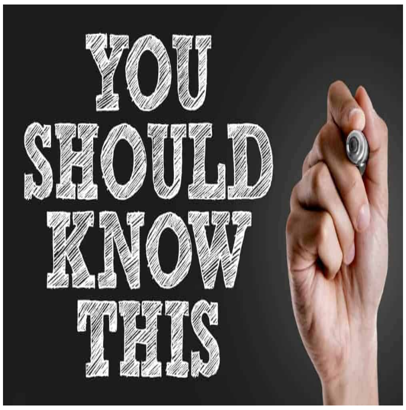

Canadian Stock Market: 3 Investing Mistakes of 2021

Description

The stock market is full of surprises. Warren Buffett, despite being in the stock market for over 70 years, makes investing mistakes. Mistakes will keep happening. But the important thing is to identify them and learn from them. Here, I have listed three mistakes some investors made in 2021 and how to avoid them in the future:

- **Facedrive** (TSXV:FD)
- **Cineplex** (TSX:CGX)
- **Barrick Gold** (TSX:ABX)(NYSE:GOLD)

Facedrive: An investing mistake

Facedrive stock showed unprecedented growth of over 275% in less than two months (December 17, 2020 – February 8, 2021) on the back of all-share acquisitions of unrelated businesses. Warren Buffett has a funny way of describing such deals: "I'll pay you $10,000 for your dog by giving you two of my $5,000 cats."

Any value investor who dug into Facedrive's business model and fundamentals would have identified that the company has no stable business. It started as a ride-sharing company focused on electric vehicles (EVs) and reducing carbon emissions. The company rode the EV rally, and when it saw the enthusiasm fading, it switched to contact-tracing, food-delivery service, and social. It was clear that the company is acquiring companies in the direction it sees popularity.

In one of his letters to shareholders, Buffett talked about how companies do short-term investor promotions to elevate their share price and raise funds. Such companies don't have fundamental support and are first to collapse in a bubble burst. And that is what happened with Facedrive.

When Facedrive released its first-quarter earnings, revenue from its core business of ridesharing fell 72.5%, and 96% of its revenue came from the newly acquired food-delivery and car-rental businesses. That was the last of it, as the stock lost 94% of its value in a year. I don't see scope for growth in the foreseeable future.

From the Facedrive mistake, investors learned to never blindly follow promotions but study the business model.

Cineplex: A trading mistake

If you bought Cineplex in the hopes of replicating an **AMC**-level short-squeeze, it was a big trading mistake. AMC is a U.S. theatre chain that got caught in the Redditors' short-squeeze mania and surged 522% in less than a month (May end and June start). The whole concept of meme stocks is a trading play, where traders look at the short interest in the options market and seek to make short-term gains by artificially inflating the spot price.

Cineplex stock first surged 40% in February, immediately after AMC stock fell. Then it surged 35% in the last week of May alongside AMC. Those who bought Cineplex stock to chase the short-squeeze rally ended up buying it at a hefty premium. Cineplex stock has the potential to recover to a $14 price, but that will only help you exit at a reduced loss.

Even if the theatre chain recovers, there is little scope of growth, as it is a dying business. Over-the-top platforms are cheaper than theatres, and the only thing that has kept Cineplex and AMC alive is the theatre experience and those expensive popcorns. Holding on to such a stock would make sense if it paid dividends. But with inflation at 4.87%, you are losing more opportunities by blocking your funds in a loss-making company. There are better stocks on the TSX.

Investing in gold

Many people consider gold an inflation hedge, as its price tends to rise in an economic downturn. But this year, gold stocks moved in tandem with the market and the economy. **Barrick Gold** stock underperformed the market and fell 23% in the last 12 months, while the TSX Composite Index surged 18%.

Many factors played into the gold price. Its price rose between May and August 2020 but then came crashing down. Even Buffett invested in Barrick Gold for a short stint but withdrew his money. I agree with Buffett's thinking that gold does nothing but sit in the vault. You are better off buying a stock that has usage, demand, and a possibility of further growth in demand.

Bottom line

The above mistakes teach us not to chase a stock price rally that is not sustainable.

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3. TSX:ABX (Barrick Mining)
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pujatayal