

## Step 11: Don't Sell Too Soon

### Description

When should I sell? This is one of the most frequent questions we hear. Our glib (yet truthy!) answer: Never. We'll come back to that ever-so shortly, but in the meantime, here are five reasons we do sell stocks.

#### Reason No. 1: Better opportunities

Sometimes, there's nothing wrong at all with a company or its stock: There are simply better opportunities elsewhere that will bring us more bang for our bucks. We will consider selling a less attractive stock (even at a loss!) if we think we can get a better deal elsewhere.

#### Reason No. 2: Business changes

There's no way around it: Businesses change — sometimes significantly. We could be talking about a major acquisition, a change in management, or a shift in the competitive landscape. When this occurs, we incorporate the new information and re-evaluate to see if the reasons we bought the company in the first place still hold true. We will consider selling if:

- The company's ability to crank out profits is crippled or clearly fading.
- Management undergoes significant changes or makes questionable decisions.
- A new competitive threat emerges or competitors perform better than expected.

We'll also take into account unfavourable developments in a company's industry. Here, it's important to delineate between temporary and permanent changes. In a downturn, financial figures may suffer even for the best-run companies. What's important is how these businesses take advantage of the effects on their industry to improve their competitive position.

#### Reason No. 3: Valuation

We're all for the long-term here, but sometimes Mr. Market shows our stock too much love. We will consider selling if a stock price has run up to a point where it no longer reflects the underlying value of the business.

#### Reason No. 4: Faulty investment thesis

Everyone makes mistakes. Sometimes, you'll just plain miss something. You should seriously consider selling if it turns out your rationale for buying the stock was flawed, if your valuation was too optimistic, or if you underestimated the risks.

#### Reason No. 5: It keeps us up at night

It is tough to put a dollar value on peace of mind. If you have an investment whose fate has whirled such that it now causes you to lose sleep, this could be a great cue to move your dollars elsewhere. Recall from the opening, we're trying to reduce the stress in our life here, not add to it. We save and invest to improve our quality of life, not to develop ulcers. Adding insult to injury, stressing about a stock might cause you to lose focus and make rash decisions elsewhere in your portfolio. Remember, there's no trophy or prize for taking on risk in investing. Stick with what you're comfy with.

## **Know When to hold 'em**

If these are the reasons to fold 'em, how do we know when to hold'em? Remember, we're long-term investors, not weak-kneed speculators. It is important to note, not one of these reasons to sell is related to an "analyst" changing their recommendation or simply because a stock has fallen in price. Both of these items provide great fodder for the talking heads of the world but have absolutely no impact on the underlying businesses into which we are buying. Over the course of what will be a prosperous investing career for you, the market will rise and fall. Recessions and booms will happen. And all the while, you must stay focused on the long term. Fear is never a reason to sell.

## **Action: Put it in writing**

For each stock in your portfolio, write down why you bought it, your expectations, and what would make you sell. Refer to it frequently — and before you decide to give your stock the heave-ho.

### **PP NOTIFY USER**

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