



When Is It the Right Time to Sell a Stock?

Description

For many investors, holding a stock forever is not the goal, which is why knowing when to sell can be just as important as knowing when to buy. Hold onto a stock for too long and you could give back some gains, or worse, see a major correction take place. By looking at multiple factors, you can help optimize your selling strategy.

Below, I'll look at how you can incorporate the following variables into your analysis to help make a better decision on when to sell: the stock's recent performance; valuation multiples; and opportunity cost.

Recent performance

A big consideration that should always play into your decision-making is how the stock has performed. When it comes to losers, you can easily end up [hanging on to them too long](#) out of fear of realizing a loss. For stocks that have declined and have little hope of recovery, you shouldn't have too big of a threshold before cutting bait.

However, even though you want to hang on to your winners, you shouldn't wait until a bubble has popped either. **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) has soared this year and is a great example of a stock that might be reaching bubble status. Early in the year, the stock was trading below \$200, but by the end of last week, it had hit a 52-week high of more than \$446.

The stock has yet again found its way into overbought status, with its **Relative Strength Index** (RSI) reaching over 70. RSI looks at a stock's gains and losses over the past 14 trading days, and when the scales are heavily tilted in one direction, it helps make investors aware that the stock might be due for an adjustment.

Where the stock is in relation to its high for the year as well as its RSI are just two examples of how you can gauge whether you should considering selling, but simply performing well isn't a good reason to sell a stock.

Valuation multiples

A stock that has risen in value, could after all be recovering from a prior period sell-off. And that's where looking at valuation multiples can help put a well-performing stock into perspective. In Shopify's case, the stock currently trades at a price-to-book multiple of over 20 and a price-to-sales ratio of around 40.

Both of those multiples are very high, and definitely suggest it could be a good time to sell. There are also many other ratios you could use as well, including the price-to-earnings ratio.

Opportunity cost

Perhaps the most important factor is whether there's a better stock to invest in that can help earn a better return for you today. Shopify's stock might rise another 5% or 10%, but the odds of it doubling this year are likely remote. If you've found a stock that you think could be a good bet to [double](#) or earn better returns than your current stock, that might be an indicating that your funds are better off elsewhere.

Bottom line

One of the toughest decisions I've found in investing is knowing when to sell, and it's one that investors should take into consideration even when buying a stock. If you pick a good stock to buy on a dip and it does proceed to rise, you need to know your strategy and when you plan to sell (unless you plan on holding forever). Otherwise, you could end up eating into your gains.

CATEGORY

1. Investing
2. Tech Stocks

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