



3 Reasons Why You Should Always Sell a Stock

Description

There are a lot of articles dedicated to when investors should buy a particular stock, but there are virtually zero that talk about selling.

Many investors avoid the sell question by naively saying they plan to buy and hold stocks “forever,” a holding period that is favoured by many top investors, including the top one on everyone’s mind, Warren Buffett. But for a guy whose favourite holding period is forever, Buffett sure does sell a lot of stocks.

Let’s take a closer look at three reasons why you should sell a stock — tips that could save you thousands in losses and, most importantly, many fewer hours of stress.

A dividend cut

While there will always be stories of companies that [turn operations around](#) after a dividend cut, for the most part, dividend cutters will always struggle.

Take **Just Energy** (TSX:JE)(NYSE:JE) as an example. The power and natural gas reseller has now cut its dividend a whopping three times, with cuts in 2013, 2014, and again earlier in 2019. The payout is now zero, and many analysts say the company is on thin ice.

One look at the stock history confirms it would have been a fantastic decision to sell the stock when the company announced its first dividend cut. Shares are down well over 50% since that fateful day — a woeful underperformance compared to the TSX Composite Index, which chugged nicely in the meantime.

One of the issues with Just Energy is, its business model was never really suited to paying a stable dividend in the first place. The company valued growth, as it expanded its popular North American business model around the world. And fluctuations in power and natural gas prices would go against it every now and again, leading to cash crunches. The company is now in a better spot to deal with those issues now that it no longer pays a dividend.

Thesis creep

I first bought **Aimia** ([TSX:AIM](#)) shares back in 2016, attracted to the company's strong free cash flow, the solid moat offered by Aeroplan ownership, and the strong possibility the company would renew the contract with **Air Canada**.

And then the unthinkable happened. Air Canada announced it was going to create its own loyalty program. Aimia shares tanked, and Air Canada eventually bought the Aeroplan assets from Aimia's beleaguered managers for a song.

Meanwhile, I continued to hold the shares. I convinced myself Aimia had gone from a dividend/[cash flow](#) play to a deep-value play, where the sum of the assets was worth far more than the stock price.

After patiently holding for about a year, I realized the error of my ways and punted Aimia from my portfolio. I took a big loss and moved on with my life.

I fell for one of the biggest lies we tell ourselves as investors. When Aimia's business plan changed entirely, I should have exited the stock immediately. The original investment thesis was no longer true.

Insane overvaluation

Sometimes, when you have a huge winner in your portfolio, it's easy to take a critical look at a stock and declare it's very overvalued. This would be a legitimate reason to sell.

But investors must remember that an overvalued stock can easily get even more expensive. There's no limit to that kind of upside. And selling a stock like that comes with the risk of missing out on that next move higher.

In that situation, investors should look at selling just a portion of their shares, leaving the rest in case of another leg up.

For instance, I once sold half of a stock that was up 300% from my original selling price, locking in a nice gain on the entire investment. Once the stress of losing my original investment was off the table, it was much easier mentally to let the rest ride. I did just that, selling the remaining half a couple years later for an even better gain.

The bottom line

There are three important reasons investors should sell a stock. If it cuts its dividend, if the investment thesis completely changes, or you're sitting on a massive gain, it's time to hit the sell button. You'll

likely regret it if you don't.

CATEGORY

1. Energy Stocks
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nelsonpsmith

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