



Fisher Funds

Investor Education Centre

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Know when to hold 'em, know when to fold 'em

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One of the toughest questions in investing and one that can have a huge impact on your returns is: When is the best time to sell a stock?

You should buy a share with the intention of holding it forever or at least for a very long time – master investor Warren Buffett takes this approach. That's because, while good companies will have their ups and downs, over long periods, their share price will follow their profits. When profits increase, so does the share price.

Most people sell for one of two contradictory reasons and neither has much to do with profits.

Firstly many investors are tempted to sell when the share price falls and "cut their losses". But if you have faith in the businesses you own and their prices fall, you should buy more shares. I remember owning Michael Hill shares in early 2003 when the company announced currency movements had hurt its profits (the environment was very similar to the one we're in now). The Michael Hill share price fell 31% in three months and it was tempting to sell. However, I had confidence in the company and its ability to grow profits, regardless of currency. My faith paid off and by November 2004, the share price had lifted 87%.

A decline in a stock's price can certainly be a signal that something is wrong, but it is not an alarm bell that should panic you into selling. If there has been no fundamental change in the underlying business, you should hang on.

The other reason people sell is that the share price has risen. It feels good to be able to say you bought a stock at \$2 and were able to sell at \$3.50. But chances are that if the share price has risen, the company has been doing something right. Why sell it just because it has been successful?

I have invested in companies over the years whose share prices have doubled several times over. In March 2003, the Ryman Healthcare share price was 32 cents. By May 2007, it was \$2.75. The global financial crisis has seen it drop back to \$1.47, but I don't regret holding on as I believe in this company's ability to grow profits over time.

The movement of a stock's price – either up or down – is no reason to sell it. Nor is the performance of the economy, or of the share market as a whole. It's a pretty good bet that over long periods, the economy will grow, and therefore good companies will be able to grow profits. So when should you sell?

The best reason to sell is if something has gone wrong with the underlying business. A new competitor may have emerged and driven down prices, maybe a key product has failed, or perhaps the management aren't doing what they said they would.

If you choose well in the first place, it is only occasionally that there is any reason to sell at all and that is more likely to be linked to your personal circumstances rather than a change to a sound and profitable business.

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