



Fisher Funds

Investor Education Centre

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Knowing when to sell a crucial point

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Deciding when to sell out of an investment is one of the hardest decisions investors ever have to make.

Buying is easy – you find a company you like, you check it out and if it meets all your criteria, you buy. But when you're thinking about selling, it is generally because things are not going well. Do you sell now because it might not get better? Or do you hang in there?

Every company goes through tough periods and things don't always go to plan. If you're thinking about selling, you need to be sure that the problems are permanent rather than temporary.

You also need to sell for the right reasons. The recent volatility in the market might make it tempting to say, "Sell it all. I'll sit this out until things calm down." But you shouldn't let fear drive your investment decisions. Decisions made when you are particularly nervous or enthusiastic are rarely the best ones.

We have always applied a rule of thumb to our selling decisions – sell only if there has been a significant change in the company's fundamentals. Significant means material and not temporary. When we talk about the company's fundamentals, we mean the parts of the business that help drive profitability – strategy, personnel, competitive landscape etc.

It is generally pretty easy to spot a change in the company's fundamentals. If a company's earnings stop growing, if there is a change in management, if it stops creating new products or it is beaten to the post by competitors, you should have a closer look.

However, you need to look at the materiality of the change. If a company's earnings are still growing, but growing at a slower pace than expected, we would not consider that to be a significant enough reason to sell. However, if a company fails to meet its earnings projections over two or three reporting periods, the problem becomes more material.

In addition to our selling rule of thumb, there can be other reasons to sell. If a company's share price is rocketing but its fundamentals, such as profit growth, are not following suit, it can be time to sell. You don't want to be the last investor owning an overpriced stock.

You should also sell if a stock is in danger of taking over your portfolio. It is wonderful owning successful stocks over many years and watching their share prices double, and then double again. However, if by virtue of its success, one stock becomes your dominant portfolio holding, you should sell and take some profits. This can be hard to do, because nobody likes to sell winners, but diversification is still essential.

The other thing to remember is that you won't get them all right. Ideally, you sell a stock when it's up so you can make a profit. But sometimes you have to cut your losses and sell when a stock is down. That's okay, just make sure your next purchase is a winner!

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