

# Stock Selling Guide

Company: \_\_\_\_\_  
 Ticker: \_\_\_\_\_  
 Prepared by: \_\_\_\_\_  
 Date: \_\_\_\_\_

## A. GAIN/LOSS WORKSHEET

1	Cost basis of shares owned (Total amount invested)	\$	
2	Total value as of this date	\$	
3	Pre-tax loss/gain	\$	(= 1 - 2)
4	Capital gains taxes due (if any)	\$	
5	Round-trip commissions (to sell, then buy a replacement)	\$	
5	After-tax loss/gain (Starting amount of potential new investment)	\$	(= 3 - 4 - 5)

## B. WHY ARE YOU CONSIDERING A SALE?

REASONS	CONSIDERATIONS
<input checked="" type="checkbox"/> To "lock in a profit."	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Trading results in higher taxes and commissions, and lower returns.</li> <li>• Concentrate on cutting losses instead of "protecting your gains"</li> </ul>
<input checked="" type="checkbox"/> Stock has reached pre-determined limit.	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Sell limit orders generate certain tax liability, possibly at higher rates.</li> <li>• Eliminates the chance of any future growth in that stock.</li> </ul>
<input checked="" type="checkbox"/> "Stock hasn't done anything."	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Prices don't move in linear, consistent fashion, but in spurts.</li> <li>• Remember that price growth follows profits, <i>eventually</i>.</li> <li>• Determine if a stock is languishing for a reason.</li> </ul>
<input checked="" type="checkbox"/> Company is subject of temporary bad news.	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Avoid knee-jerk reactions, though market may respond negatively.</li> <li>• Re-evaluate to determine possible long-term impact of news.</li> </ul>
<input checked="" type="checkbox"/> Company has missed earnings estimates by small amount.	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Focus on long-term, not short-term results.</li> <li>• Re-evaluate to determine if there is a fundamental shift underway at the company.</li> </ul>
<input checked="" type="checkbox"/> An analyst has downgraded the stock.	<ul style="list-style-type: none"> <li>• <b>WARNING:</b> Analysts have short-term, not long-term, objectives.</li> <li>• May have lowered rating to protect realized gains, not due to long-term potential.</li> </ul>
<input type="checkbox"/> To raise cash.	<ul style="list-style-type: none"> <li>• Consider it an opportunity to prune underperformers.</li> <li>• If you don't have any underperformers, then consider tax impact of selling.</li> </ul>
<input type="checkbox"/> To raise cash for club withdrawal.	<ul style="list-style-type: none"> <li>• Consider it an opportunity to prune underperformers.</li> <li>• Don't sell highly appreciated stock, transfer shares to departing member instead.</li> </ul>
<input type="checkbox"/> The stock is possibly overvalued.	<ul style="list-style-type: none"> <li>• Relative Value using forward PE is greater than 150%.</li> <li>• Stock is in sell zone on SSG.</li> <li>• Projected total return less than long-term returns on bonds.</li> </ul>
<input type="checkbox"/> To take a capital loss.	<ul style="list-style-type: none"> <li>• Sell stocks at loss in taxable accounts to offset any gains.</li> <li>• Part of year-end portfolio review.</li> <li>• After offsetting losses, can use \$3,000 of capital gains to offset ordinary income.</li> <li>• Evaluate for repurchase after 30 days (to avoid wash sale rule)</li> </ul>
<input type="checkbox"/> To upgrade quality or expected return of portfolio.	<ul style="list-style-type: none"> <li>• Determine round trip cost, amount to invest in new stock after taxes and commissions.</li> <li>• Use Toolkit Challenger or Stock Analyst Cost of Switching tool to evaluate.</li> <li>• Use NAIC Challenge Tree to evaluate.</li> </ul>
<input type="checkbox"/> Because fundamentals have changed.	

*Proceed to Section C.*

## C. EVALUATING CHANGING FUNDAMENTALS

REASONS	CONSIDERATIONS
<input type="checkbox"/> EPS or revenue growth is slowing or falling.	<ul style="list-style-type: none"> <li>• Company may be entering a new stage of slower growth or stagnation.</li> <li>• If considering additional purchase, use caution. The worse a company performs, better a value it may appear on the SSG.</li> </ul>
<input type="checkbox"/> Quarterly pre-tax profits are falling.	<ul style="list-style-type: none"> <li>• Use PERT graph to evaluate PTP.</li> <li>• Three quarters of consecutive declining PTP are a danger sign.</li> <li>• Five consecutive declining quarters are usually a definitive sign to sell.</li> </ul>
<input type="checkbox"/> Cash flow is diverging from net income.	<ul style="list-style-type: none"> <li>• If free cash flow is falling while net income is stable or rising, company may be "propping up" profits.</li> </ul>
<input type="checkbox"/> Other fundamentals are deteriorating.	<ul style="list-style-type: none"> <li>• Accounts receivable rising faster than sales.</li> <li>• Inventories rising faster than sales.</li> </ul>
<input type="checkbox"/> There has been an uncertain change of management.	<ul style="list-style-type: none"> <li>• Dynamic company leader retires, replacement has questionable qualifications.</li> <li>• Senior executives leave en masse.</li> <li>• Those responsible for past success are no longer with the company.</li> </ul>
<input type="checkbox"/> Company faces direct or indirect competition.	<ul style="list-style-type: none"> <li>• Competitors threaten to affect the company's long-term prosperity.</li> <li>• Companies with very high profit margins are often susceptible to increased, cutthroat competition.</li> </ul>
<input type="checkbox"/> Company faces uncertain product cycle.	<ul style="list-style-type: none"> <li>• Company is too dependent on single product.</li> <li>• No new products in pipeline (such as pharmaceutical companies).</li> </ul>
<input type="checkbox"/> Company has uncontrolled raw material costs.	<ul style="list-style-type: none"> <li>• Can harm profit margins.</li> <li>• If company doesn't hedge, they may have no option but to pay higher prices for necessary materials.</li> </ul>
<input type="checkbox"/> Company is the victim of fraud or "accounting irregularities."	<ul style="list-style-type: none"> <li>• If the books are being cooked, investors will be last to know.</li> <li>• No way for investors to know if management is lying, or auditors are covering up.</li> <li>• Get out fast; these are not quality companies.</li> </ul>
<input type="checkbox"/> Company's debt rating has been lowered.	<ul style="list-style-type: none"> <li>• Can often be an early warning sign of greater problems in the future.</li> </ul>

## D. FINAL CONSIDERATIONS

- Don't hesitate to sell in retirement accounts where taxes aren't an issue.
- Don't automatically buy because a stock falls in price; re-evaluate as if new.
- If you won't purchase additional shares of a fallen stock, why would you continue to hold it?
- Don't "wait to get your money back" from the stock – it doesn't know you own it.
- Don't be paralyzed by uncertainty.
- Don't be an ostrich with your head in the sand – face up to the problem.
- Remember NAIC's Rule of Five.
- Use Challenge Tree to continually upgrade your portfolio.
- Think "replace," not "remove."