

To Sell or to Hold Checklist

(Created by Colleen Mulder-Seward, adapted from Nancy Cray's checklist, modified by Jim Crabill)

Company _____ Ticker _____
 Prepared by _____ Date _____

To do before selling any stock:

- Update SSG data and review judgements.
- Determine Short Term versus LongTerm bad news
 - Read articles, SEC documents, listen to conference calls, etc.
 - Consider industry and competitors
 - Consider economy
- Near end of quarter - wait for earnings release
- Check reasons you bought the stock (check "notes" for your "buy" SSG in your SSG software)
- Have replacement stock selected (unless #1 - you need cash)
- Remember, in the long run, price follows fundamentals

Reasons to Sell	Selling Considerations	Conclusion?
<input type="checkbox"/> 1. If you need cash <input type="checkbox"/> 2. If company's fundamentals deteriorating	<input type="checkbox"/> Use # 2 through # 8 to determine which stock is best to be sold. <input type="checkbox"/> Slowing or declining sales and/or growth is warning sign. (Check TTM TrailingTwelve Months growth rates in PERT A or Quarterly Trend Graph) <input type="checkbox"/> Declining profit margins. (Check section 2A and 2B on SSG.) <input type="checkbox"/> Increasing long-term debt. (Look at section 2C in ToolKit or in the Online Tools) <input type="checkbox"/> Increasing inventories (Look at financial web site) <input type="checkbox"/> Increasing receivables (Look at financial web site) <input type="checkbox"/> Decreasing or negative cash flow (Toolkit or SSGPlus Graph)	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 3. If there are adverse company changes	<input type="checkbox"/> Adverse management changes (CFO departed unexpectedly, several key executives departed, death of several key executives.) <input type="checkbox"/> Significant increase in competition <input type="checkbox"/> Decline in product pipeline <input type="checkbox"/> Same-store sales declining <input type="checkbox"/> Worsening product mix (patent expiration, increased low margin products, dependence on 1 or 2 products.) <input type="checkbox"/> Products are no longer in demand <input type="checkbox"/> Customer base shrinking or company becoming overly dependent on one or two customers <input type="checkbox"/> Indications of fraud or accounting problems (changes in accounting firm, SEC investigation, CFO leaves just before 10-K/10-K is filed.) <input type="checkbox"/> Company's debt rating has been lowered <input type="checkbox"/> Uncontrolled raw material costs	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 4. If stock is overvalued	<input type="checkbox"/> Relative value (RV) is over 150% (Toolkit Section 3/ <i>Ratio tab Plus</i>) <input type="checkbox"/> Upside-downside ratio is below 1.0 to 1 <input type="checkbox"/> Potential total return is less than money market fund or CD <input type="checkbox"/> Price of stock has greatly outpaced industry average and/or competitors. (Get 10-year price graph from financial web site of company vs. competitors and industry.)	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 5. To diversify portfolio	<input type="checkbox"/> If one stock is 10 to 20% of your portfolio (try to add to other positions or sell a portion of the large position.) <input type="checkbox"/> If stock is < 5% of your portfolio (add to it or sell it.) <input type="checkbox"/> If stocks are not probably allocated (25% small, 50% medium, 25% large)	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 6. To improve portfolio quality	<input type="checkbox"/> Erratic sales and/or EPS growth <input type="checkbox"/> Erratic PTP and/or % ROE. <input type="checkbox"/> Use PERT report to sort portfolio by projected total return (sell ones with lowest potential.)	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 7. If the company is acquired	<input type="checkbox"/> SSG of acquirer doesn't meet your standards.	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold
<input type="checkbox"/> 8. To take a capital loss	<input type="checkbox"/> Can sell stocks in taxable account at a loss to offset capital gains <input type="checkbox"/> Can use \$3,000 of capital losses to offset ordinary income <input type="checkbox"/> Evaluate stock for repurchase after 30 days to avoid wash sale.	<input type="checkbox"/> Sell or Replace <input type="checkbox"/> Hold

Selling Considerations

Wrong reasons for selling

1. Selling because the price hasn't moved
2. Selling because of a Paper Loss or a Paper Profit
3. Selling because of Temporary Bad News
4. Selling just to Take Action
5. An analyst downgrades a stock
6. If you've kept a stock while it plummeted, don't sell it when it has fallen so far that any remaining downside risk is minimal compared to its upside potential
7. Sellin by using Price Targets, eg: automatically selling when a stock had doubled or when it has dropped by a certain percentage
 - Any drop in price should flag the stock for further analysis; it should not however, cause an automatic sell...understand why things happen
 - If a stock has doubled, hold it to triple or quadruple

Wrong reasons for NOT selling

1. You're emotionally attached to a company
2. You hate to admit that you made a mistake
3. You hate to take a loss, and you want to wait until the price rises back to the purchase price
4. You don't know how to take advantage of a loss for tax purposes

Know when to Fold'em

1. Another company offers equal or better returns with less downside risk
2. A company of equal or higher quality offers better potential return
3. You need money
4. Company fundamentals for business outlook are deteriorating
5. Portfolio diversification is out of whack

Sell Signals that Aren't on the SSG

1. An adverse management change has occurred
2. The customer base is shrinking
3. Competition is tough
4. Product pipeline is deteriorating
5. Funding for research and development is decreasing
6. Financial results show problems or worse
7. The price drops below your estimated low on SSG for no apparent reason

Conclusion

- Selling, like buying, is not an easy decision
- You must look at the whole picture, not just at one or two numbers
- If 4 out of 5 selling decisions are correct, you should do well