WHEN TO SELL A STOCK

General Philosophy: For any stock under consideration for selling, it is good practice to have a replacement stock in mind--from watch list possibly. Portfolio management means we should be challenging stocks in the portfolio for ones with better growth potential.

CONSIDER SELLING WHEN....

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|  | Where to find the information |
| ...pre-tax profit margins are declining, especially over past 3-5 years. Compare with industry standard. | Section 2A of the SSG |
| ...return on equity is falling. The biggest winners historically show 17% of more before there are large gains in stock prices. A figure below 10% is a weak return. | Section 2B of the SSG |
| ...the debt/equity ratio is increasing rather than decreasing. A higher level increases the risk. Compare with industry average. | Section 2, C on the SSG. |
| ...The stock is overpriced (PEG ratio if over 150% and the growth of earnings is slowing. | Section 3, line 8; look at historical earnings on Value Line and compare with projections. |
| ...cash flow is decreasing or even negative | See cash flow statement in financial report. |
| ...the upside/downside ratio is 1:1 or lower. 3:1 is desirable | See Section 4D |
| ...insider ownership drops. May not be significant with larger companies | See Value Line, Yahoo Finance, etc. |
| ...institutional ownership is dropping | See front page of SSG upper right corner |
| ...there is a need to balance the portfolio. One stock should never dominate the holdings. | Check accounting statement |
| ...the stock is in the sell zone on the SSG | See Section 4C. Check fundamentals and judgments |
| ...the financial rating falls below B+ | See lower right corner of Value Line |
| ...the company seems to have lost some of its competitive advantage | Check market share, competitors, changes in the industry |
| ...the company's success is too dependent upon limited products that are losing favor with the public | Check trend for sales of primary products/services |
| ...there is an adverse management change or legal challenges that seem legitimate. | Check company news |
| ...the company's industry may be headed for a slump | Read about industry news; check company's 10-K or annual report |

DO NOT SELL...

...because you want to lock in a profit.

...because the stock price hasn't risen at the rate you wanted. Prices don't move in linear, consistent fashion. Remember that price growth follows profits, eventually. Look for the reason that the stock is languishing.

...because the company has missed earnings estimates by a small amount. Focus on long-term, not short-term results. Re-evaluate to determine if there is a fundamental shift underway at the company.

...because the analysts have downgraded the stock. Analysts have short-term, not long-term potential.

...because there is a general market sell-off. It is too late. If your company's fundamentals are still sound, the price will come back.