

## Reasons to Sell



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## Reasons to sell You need cash

Go through the rest of the checklist to determine which stock should be sold.

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## The company's fundamentals have deteriorated

- Slowing or declining sales, earnings, or both; check trailing figures
- Decreasing pre-tax profit margins
- Deteriorating inventory or receivables
- Excessive or increasing long term debt
- Declining return on equity
- Increasing inventories; and/or increasing receivables
- Decreasing or negative cash flow

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## The company reports bad news

- Potentially adverse management changes
- Significant increase in competition?
- Change/deterioration in product mix or decline in pipeline
- Decline in same store sales.
- Products falling out of favor or becoming obsolete
- Customer base shrinking or dependency upon one major customer?

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## The company reports bad news

- Accounting or fraud problems (SEC investigations)
- Lowered debt ratings
- Uncontrollable raw materials cost
- Was the dividend cut or eliminated?
- Is there heavy inside selling?
- Is institutional ownership too high

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## The stock is overvalued

- The price-earnings ratio becomes too high (PE is significantly higher than five-year average)
- Relative Value > 150%
- The risk-return ratio becomes unfavorable (Upside/Downside < 1)
- Projected total return drops below the level you expect
- Projected total return drops below the return on Treasury Bonds, money market or CD

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## The portfolio needs more diversification

- A stock is 10 to 20 percent or more of your portfolio
- A stock is less than 5 percent of your portfolio
- The stocks in the portfolio are not properly allocated in terms of company sizes, sectors, industries, international exposure and so on

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## The portfolio's quality needs to improve

- Companies with erratic sales growth, earnings growth, or both.
- Companies with erratic pre-tax profits, return on equity, or both.
- Companies with low forecast potential returns.

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## The company has been acquired

- The stock study of the acquirer doesn't meet your standards.
- The acquisition will be for cash.

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## You need to take a capital loss

- Selling stocks in a taxable account at a loss can help offset capital gains.

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- These were all good selling considerations.
- Now here are 4 reasons NOT to sell.

## Reasons not to sell

- Only to take a profit
- Only on temporary bad news
- Because of boredom with the stock
- Trying to time the market

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Greed and ego are the two major enemies  
of astute selling

How to admit a mistake – hate to take a loss

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Are there any questions?