

Sorting out the sell side

Perhaps the most difficult part of the investment equation is the sell side. Sell too soon, and you leave money on the table. Sell too late, and you wish you'd sold too soon.

So how can investors shift the odds in their favor? Following these simple rules will help:

► *Know why you bought.* Maybe the simplest sell advice the *Forecasts* can give is to sell when the reasons you bought no longer hold. Of course, this rule implies investors know why they bought. Sometimes the passage of time can erase the reason from your memory, leaving you with zombie holdings.

To improve your sell decisions, keep a record of your reasons for buying in the first place. And if the reasons you bought are no longer valid, sell. Strong Quadrix® scores are among the key characteristics that earn a stock a place in the *Forecasts* recommended lists. Thus, deteriorating Quadrix scores play an important role in our sell decisions.

► *Maintain reasonably concentrated portfolios.* Longtime readers of the *Forecasts* know that our Focus List usually contains 12 to 17 stocks, while our largest list, the Long-Term Buy List, will typically contain fewer than 40 stocks. We could easily recommend 50 or 100 stocks, but too many stocks can adversely impact the sell process.

Owning a lot of stocks makes it difficult to follow your holdings. Also, if you cap the portfolio size at some reasonable number, it sets up a constant competition for new ideas. In other words, part of the sell discipline is determining whether a stock in the portfolio is better than a new idea you want to add. If the new idea is better, sell the legacy stock.

► *Don't be afraid to sell a losing position.* Many investors won't sell troubled stocks because they don't want to lock up a loss. Of course, when you sell at a loss you're acknowledging you made a mistake, and no one likes to admit mistakes.

The thinking goes that if you hold the stock until it gets back to breakeven, you can avoid the loss. The problem with that logic is that if a stock has declined in value since you bought it, you have a loss, whether or not you sell. Your portfolio is worth less money.

Remember — none of us has an infinite amount of money. Successful investing involves making sure all of our money is in our best ideas, the stocks we believe have the best chance of increasing in value going forward. Don't hold a stock simply because you don't want to take a loss. Hold a stock, including those in which you have losses, only if you believe the stock offers a great chance for generating future returns. If not, sell.

► *Too much of anything can be bad for your portfolio well-being.* The *Forecasts* knows the arguments — the greatest wealth in this country has been built off ownership of one great stock. Jeff Bezos of Amazon.com (*AMZN*). Mark Zuckerberg of Facebook (*FB*). Bill Gates of Microsoft (*MSFT*). Warren Buffett of Berkshire Hathaway (*BRKb*). Yes, you can hit it big by putting all your eggs in a single basket.

But you can also do very, very well taking much less risk and owning a diversified basket of stocks. The *Forecasts* believes in holding portfolio positions close to equal weighted. If your largest holdings represent a huge overweight — say, single positions north of 15% — consider trimming the position even if it means paying capital-gains taxes.

The *Forecasts'* sell of Amgen (*AMGN*) (Feb. 19 issue) provides an instructive case study on the sell decision. The biotech's Overall Quadrix score had deteriorated to 70 in February from 93 at the end of December. Important Quadrix category scores, such as Value and Momentum, also had declined — Value fell to 64 from 84, and Momentum fell to 29 from 56.

We rarely buy stocks with Overall scores below 80 and prefer them above 90. Amgen's declining scores ran contra to one of our major reasons for recommending the stock.

Other factors that influenced the sell decision included disappointing revenue growth and growing concerns that new products would not come quick enough to offset weakness in its top-selling Enbrel product. In addition, the *Forecasts* introduced four new stocks to our Buy and Long-Term Buy lists.

As mentioned, we try to keep a reasonably snug number of recommendations, which sometimes forces us to sell our least-favorite stocks (in this case, Amgen) to clear room for the new recommendations.