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OPTIMISING PORTFOLIO PERFORMANCE

THE QUESTION OF WHEN TO SELL

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"I'M not emotional about investments. Investing is something where you have to be purely rational and not let emotion affect your decision making — just the facts" (Bill Ackman).

Buying a stock may seem straightforward at first glance but selling it can indeed present challenges and complexities. This can be attributed to a combination of psychological, emotional, strategic, and practical factors. Selling a stock is often more difficult compared to buying one.

Psychological factors

Loss aversion: People dislike losses more than they like gains. Selling a stock, especially at a loss, can be psychologically challenging due to the fear of regret or admitting a mistake.

That is when hope creeps in — that share prices would recover one day. Hope should not factor in when investing, just the facts. You should not just hope for something; there must be a basis for your hope. Even then, "expectation" is the appropriate word.

Overconfidence: Investors might believe their chosen stock will eventually bounce back, leading to delayed selling. Overconfidence can make it difficult to acknowledge when an investment is no longer viable or profitable. Arrogance breeds overconfidence. Humility has always been an attribute of the successful investor.

Attachment and sentimentality: Investors can become emotionally attached to a stock, particularly if they've held it for a long time or have fond memories associated with its growth. Letting go of this attachment can be difficult, even if the stock is no longer a wise investment. There is a need to be brutally clinical when following an investment methodology — it is about the brain, not the heart. Do not fall in love with your stock.

Emotional factors

Fear of missing out (FOMO): Fear that the stock may continue to rise after selling can cause investors to delay or hesitate to sell. This fear can be magnified by media hype or discussions within investment communities. Allow the buyer of your stock to also make some money — prosper your neighbour. Time to ditch the *kiasu* mentality; it has no place when it comes to investing.

Greed and expectations: The desire for higher profits can deter investors from selling when the stock price is already high. They may expect even more significant gains, risking a subsequent decline in the stock's value. All fundamental investors will have set their target exit price, whether at their intrinsic value or slightly below it. All things being equal, to hold on to the stock beyond that target price must reflect greed.

Regret aversion: Investors often fear that selling a stock and then watching its price rise shortly afterwards will lead to intense regret. This fear of regret can keep them from selling even when it's a prudent choice. See the cup as half full. Concentrate and be happy about what you have made. Do not envy that which you have not made.

Strategic factors

Lack of clear exit strategy: Not having a well-defined exit strategy or predetermined criteria for selling can make the decision to sell more challenging. Investors might struggle to determine the appropriate time and price to exit the position. Again, the exit price should be determined at the time of entry. Sure, the exit price can change as the premise changes. Be clinical in executing the sale when the exit price is reached.

Market timing difficulty: Timing the market correctly is challenging. Deciding when to sell to maximise profits or minimise losses is a complex task, often influenced by economic indicators, news, and unpredictable market behaviour. It does not make sense to say that you will exit when the index hits a certain target. The stock you invested in may not correlate with the index movement. Exits should be stock-centric and not market timing-centric.

Practical factors

Transaction costs: Selling a stock often involves transaction fees, reducing the net proceeds from the sale. This consideration may discourage frequent selling. When an investor assumes a trading stance, transaction costs can creep up on you and whittle away your gains.

Liquidity concerns: Some stocks may lack sufficient liquidity, making it challenging to sell a significant position without significantly affecting the stock's price. Investors might hold off selling to avoid adverse price movements. Often, the buy-sell spread is wide. You may be able to check-in but will find it difficult to check-out profitably due to the wide spread caused by the stock;s illiquidity.

Market volatility and uncertainty: When markets are volatile or uncertain, investors may hesitate to sell, fearing they won't be able to re-enter the market at a favourable price or that they'll miss out on potential gains if the market rebounds. These are realities of the market that an investor must learn to deal with and live with.

While buying a stock can be relatively straightforward, selling it presents a host of psychological, emotional, strategic and practical challenges. Overcoming these hurdles often requires a disciplined approach, a well-defined exit strategy, an understanding of market dynamics and the ability to manage emotions effectively.

It's crucial for investors to balance their emotional attachment to investments with rational decision-making to optimise their portfolio's performance and achieve their financial goals.

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