

7 TELL-TALE SIGNS IT'S TIME TO SELL AN INVESTMENT -AND HOW TO DO IT


 An illustration featuring a large funnel shape. At the top of the funnel, a man sits on a laptop. The funnel's body is a large screen displaying a bar chart, a line graph with an upward arrow, and the word 'SELL' in red. A man on a ladder looks at the screen, while another man points at the line graph. A woman carries a stack of gold bars. At the bottom of the funnel, a man sits on a laptop surrounded by stacks of gold coins. The funnel sits on a blue and white bowl. The background has stylized blue and pink shapes.

When it comes to investing, a lot of focus is put on buying the right assets. But selling is equally important. If you don't know when to sell, or how to do it, you will struggle to be successful. Here, we highlight the key times to consider offloading an investment

BY RUTH JACKSON-KIRBY

Whether you are not selling because you've formed an emotional attachment to a stock – “it was my first investment” – or because you are chasing losses – “it's bound to recover soon” – or because you simply don't know that you should be selling, it all adds up to the same thing: a portfolio full of investments that are not pulling their weight.

“Deciding when to sell an investment is not necessarily an easy decision,” says Annabel Brodie-Smith from the Association of Investment Companies.

“But with any investment, there are often bumps along the way, which can make you wonder whether you should sell. When this happens it's important to consider whether the investment is likely to meet your financial goals and continues to match the level of risk you are willing to take. Unless it's very concerning news, it's best not to rush the decision to sell but to take your time to do your research.”

Here we look at seven tell-tale signs that an investment may need to go and how to sell it.

1 POOR PERFORMANCE

The most obvious sign it might be time to dump an investment is if it is performing badly. But sinking returns should not immediately have you reaching for the eject button.

“With an investment that is underperforming, it's important to look at how long it has underperformed and to understand why,” says Mrs Brodie-Smith.

“All investments go through periods of underperformance as different investment styles and sectors come in and out of favour, so it's important not to judge this on too short a timescale.

“You should also look at how markets are doing generally, as in market downturns it could be that most investments are performing poorly. However, if poor performance is sustained over a long period when other similar investments are performing well, it could be time to sell.”

2 THE FUNDAMENTALS HAVE CHANGED

“One of the hardest skills for investors is to know when to sell investments. That is particularly the case if the shares have gone down and the sale will mean locking in a loss. For most people, crystallising a loss is psychologically much harder than taking a profit,” says Richard Marwood, senior fund manager at Royal London Asset Management.

But a falling price isn't, in itself, a reason to sell. “The question investors must ask themselves is does the rationale I had for buying the share in the first place still hold true? If it does, and all that has changed is the share price, then there is no reason to sell. However, if the fundamentals of the investment have changed then a more serious reassessment is needed.”

By fundamentals, we mean the key reasons you bought the stock in the first place. For example, if you bought a fund or share for income but the dividend has been slashed it is time to reassess its place in your portfolio.

“A useful question for people to ask themselves is, given a blank piece of paper, would they still buy that investment today,” says Mr Marwood.

3 LEADERSHIP CHANGES

Another time to reassess an investment is when there is a change in leadership that could affect performance. With an individual stock, this could mean a change in senior management at the company or with a fund it could be the departure of a fund manager.

When it comes to a fund, news of a change in management is not automatically a reason to sell. You need to look at the bigger picture first.

“If a fund manager leaves, they could have been working with a capable deputy for many years who knows the strategy well, or the manager could have been part of a team, which suggests the approach won't change too much,” says Mrs Brodie-Smith.

However, when a new manager means the fund's investment strategy is changing, then you need to look at whether the new strategy will still meet your investment goals.

“An example is an investment strategy changing from focusing on large companies to smaller companies,” says Mrs Brodie-Smith. “Although this new strategy may perform well, you have to consider if it will meet your financial needs and risk tolerance.”

4 AN INVESTMENT IS DOING TOO WELL

“I'm always pleased to see a stock or fund that I have purchased provide myself and my clients with some exceptional returns, however, if I see a significant





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HOW TO SELL

Most of us manage our investment portfolios through an online platform. Selling a fund is relatively straightforward. Log in to your account and go to the page where you can see a list of the investments you hold. Next to each one there should be a button you can press to sell. By pressing this, you instruct the platform to sell your holding. You will then be taken to another page where you can stipulate how much of your holding in that fund you want to sell.

Selling shares is pretty similar. These days, most of us trade shares via an online share dealing account. To sell, you simply log in to your account and select the shares you wish to sell.

If you hold shares you want to sell but don't have an online account – perhaps you have paper certificates – then you can still use the internet to sell them. You need to open an account with an online broker and then provide proof of your ownership of the shares. You should then be able to sell them via your online account.

return over a fairly short space of time, I become very vigilant and more wary,” says Ray Black of financial consultancy Money Minder.

You might assume a stock or fund that is soaring is a keeper, but sometimes it makes sense to sell them while they are doing well.

“The opposite of ‘Buy Low, Sell High’ is ‘Sell High, Buy Low’. In other words – don't be greedy,” says Mr Black. “If I'm happy that a good profit has been made and the share price reflects the current value, or that the price has risen so much that the stock or fund might now be overvalued, I'll sell and look for something else that looks better priced and has potential.”

5 THE PORTFOLIO BALANCING ACT

Another reason you may want to sell an investment that is performing well is because you are rebalancing your portfolio. When you start investing, you should have built a portfolio of different assets in order to diversify your risk.

So, if say US stocks fall your portfolio may not be too badly hit as you have other assets, such as government bonds or European stocks, that are performing well. However, if one of your assets has performed particularly well, it can put your asset allocation off-kilter. For example, you initially invested 60% in equities and 40% in bonds, but strong stock market performance means the value

RISK



Keep an eye on rivals and on the rest of the market

of your equities has grown leaving you with a 70/30 split instead. In this scenario, you may sell some of your investments that have performed well and buy more bonds in order to bring your investments back to a 60/40 split.

6 BETTER RETURNS ELSEWHERE IN THE SECTOR

Successful investors do not just focus on the stocks and shares they are already holding, they also keep their eye on rivals and the rest of the stock market. Your own investments might be tootling along quite nicely but if a competitor is enjoying stellar returns, it could be time to switch.

“Sometimes companies and fund managers have a tough time and it’s reflected via underperformance in their own sectors,” says Mr Black. “If I see a fund or stock that is underperforming in its sector, I’ll investigate why it’s happening and use my analysis to assess the likelihood of things improving.

“If I can’t find anything that makes me feel good about future potential returns, or I just don’t agree with the views of the management team, it’s time to sell. I can’t see the point in holding on to underperforming stock while I wait for things to turn around. The reasons are because it might not happen in a reasonable timeframe and I’m losing out on growth and/or income.”

7 YOU NEED THE MONEY

“The most obvious time to sell is when an investment has met your financial needs, whether that’s building up a lump sum to help with university costs for children or to fund a special holiday,” says Mrs Brodie-Smith.

If that’s the case and you need the money, then it is time to sell your investments and use the money you have made to realise your goal. **mw**

RUTH JACKSON-KIRBY writes for publications including *The Times* and *MoneyWeek*. She is a former deputy editor of *Moneywise*

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