IT'S WHEN YOU *SELL* THAT COUNTS! - OVERCOMING BARRIERS TO PROFIT

a presentation for

Mississippi Society of Financial Analysts
Members and Guests

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by

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*And author of...*

Trading on Volume It's *Sell* that Counts!
When the Dow Breaks 30 Strategies for High-Profit Investment Success

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The Problems Inherent in Blind Buy-and Hold

- Assumes an unchanging world
- Passivity allows wealth destruction
- Never seize advantages; only be a victim of disasters
- Practices an "If you can't be perfect, do nothing" approach
- A convenient mantra for some parties at interest plays to procrastination; decision-stress avoidance; tax aversion; fatalism
- BEGS THE QUESTION: Buy and Hold WHAT?

Deterrents to All Selling: Must Identify and Overcome

External Influences in the Environment
- Media mantra plays to tax aversion
- B&H "education" by parties at interest who don't walk the walk
- Rising L-T trend argues for "hold"
- Pressure to avoid mistakes (closure ends hope)
- Absence of assistance; brokerages focus on buy advice
- Fits our non-judgmental, rounded-corners culture
Deterrents to All Selling: Must Identify and Overcome

Drivers and Blocks in Human Psychology
- Perfectionism
- Endowment Effect
- Cognitive Dissonance
- Implications of disloyalty
- Avoidance of decision stress
- Closure avoidance
- "Devil You Know"
- Finality of divorces, executions, firings
- "The one that got away"

Hindrances to Selling Well: Identify and Overcome
- In a bull market, analysts' raised targets give comfort to holding
- Suspicion of brokers' switch recommendations
- Volatility pushes wrong buttons
- Intuitive contradiction of selling on good news
- We always know well the reasons market or stock is up (or down)
- Comfort-seeking tactics = HH/SL
- Discern between scary market vs. company news
How to Sell: A "Do" List

• Give up on being perfect! Investing is an ART, not a Science.
• Watch behavioral signs of a high market; metrics are never the same
• Use an asset-allocation discipline to force selling high
• Assume change, not its absence!
• Sell on fundamental or technical analysis, whichever speaks first
• Have a selling plan when you buy (prevents drifting)
• Spend equal thinking time on selling vs on buying

How to Sell: A "Do" List

• Accept unreasonable returns graciously
• Sell crescendos (understand crowd supply/demand math)
• Sell spikes immediately (understand Internet's compression effect)
• Date, don't marry, your favorite stocks
• Enter target sell orders based on P-S-T
• Believe the "cockroach theory"
• Place stops based on chart patterns, not at arbitrary % down
• Always sell popular stocks before EPS reporting date
• Keep a notebook on yourself!
How Not to Sell: A "Don't" List

- Don't confuse the stock with the company
- Don't fantazise that your cost price is important to the market
- Don't let gains get so large that taxes become a factor
- Don't sell good stocks because/when market scares you
- Don't sell at market at the opening on bad news
- Don't fall to the temptation of 'one more day' or 'one more

How Not to Sell: A "Don't" List

- Don't procrastinate or rationalize
- Don't view selling as a permanent verdict
- Don't let taxes or commissions Interfere
- Don't pull or lower your stop orders If you use stops
- Don't forget key market mechanisms: $5 and $3 levels for marginability; $1 for de-listing
The acid-test question:

WYBIT?

Things To Take Away

If you can't sell, you are a collector doomed to die with current holdings (maybe plus later buys)
Selling should get equal "thinking time" with buying
Purge Perfectionism!
There are no "average sellers"; people either do it well or do it badly
Things To Take Away

• Remember that taxes/commissions are a LOT smaller than potential gains and losses
• The lower cap-gains rate is a pleasant bonus, not a basic human entitlement!
• Don't sell a stock because the general market has you scared
• Holding = Passive Buying. Therefore ask "Would I buy this today?"
• Holding should be considered a choice, not a default

Suggested Reading

• When to Sell
  • Justin Marnis and Robert Mamis
• It Was a Very Good Year
  • Martin S. Fridson
• How Not to Buy a Common Stock
  • Donald I. Rogers
• Juncture Recognition in the Stock Market
  • W.G. Bretz
• Value Averaging
  • Michael E. Edelson
• Stock Market Probability
  • Joseph E. Murphy
A 12-Step Program for Hold-Aholics

1. I have lost money even though I have not sold the stock yet.

2. It is impossible for me, or anyone, to be right every time. If I’m wrong, I can buy it back later.

3. I will never sell at the high; I must abandon that fantasy.

4. I will not let taxes or commissions rule my decisions; lower long-term capital gains rates are a bonus, not a birth right.

5. Selling is neither a lifetime decision nor an insult to the company. The stock has no feelings and does not care what I do.

6. When, considering holding, I must ask if I would now BUY the stock, if I did not already own it.

7. The market is much more powerful than I am; it very often knows more than I do.

8. Companies in trouble take YEARS to get fixed. Many will die first.

9. Fundamentals rule only in the long term; opinion and emotion set prices most often.

10. P/E ratios cannot expand for long; they revert to the mean. Markets rarely rise more than 3 years, 4 months, 5 weeks, or 6 days running.

11. The record high price, the highest since I bought, and my cost price are irrelevant information.

12. Selling short is neither immoral nor anti-American. Prices fall faster than they rise.

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in collaboration with Prof. Tom Howard (U. of Denver)