Stock Selling Guide

Company: ____________________
Ticker: ____________________
Prepared by: ____________________
Date: ____________________

A. GAIN/LOSS WORKSHEET

1	Cost basis of shares owned (Total amount invested)	$	
2	Total value as of this date	$	
3	Pre-tax loss/gain	$	(= 1 - 2)
4	Capital gains taxes due (if any)	$	
5	Round-trip commissions (to sell, then buy a replacement)	$	
5	After-tax loss/gain (Starting amount of potential new investment)	$	(= 3 - 4 - 5)

B. WHY ARE YOU CONSIDERING A SALE?

REASONS	CONSIDERATIONS
x To "lock in a profit."	• **WARNING:** Trading results in higher taxes and commissions, and lower returns. • Concentrate on cutting losses instead of "protecting your gains"
x Stock has reached pre-determined limit.	• **WARNING:** Sell limit orders generate certain tax liability, possibly at higher rates. • Eliminates the chance of any future growth in that stock.
x "Stock hasn't done anything."	• **WARNING:** Prices don't move in linear, consistent fashion, but in spurts. • Remember that price growth follows profits, *eventually*. • Determine if a stock is languishing for a reason.
x Company is subject of temporary bad news.	• **WARNING:** Avoid knee-jerk reactions, though market may respond negatively. • Re-evaluate to determine possible long-term impact of news.
x Company has missed earnings estimates by small amount.	• **WARNING:** Focus on long-term, not short-term results. • Re-evaluate to determine if there is a fundamental shift underway at the company.
x An analyst has downgraded the stock.	• **WARNING:** Analysts have short-term, not long-term, objectives. • May have lowered rating to protect realized gains, not due to long-term potential.
o To raise cash.	• Consider it an opportunity to prune underperformers. • If you don't have any underperformers, then consider tax impact of selling.
o To raise cash for club withdrawal.	• Consider it an opportunity to prune underperformers. • Don't sell highly appreciated stock, transfer shares to departing member instead.
o The stock is possibly overvalued.	• Relative Value using forward PE is greater than 150%. • Stock is in sell zone on SSG. • Projected total return less than long-term returns on bonds.
o To take a capital loss.	• Sell stocks at loss in taxable accounts to offset any gains. • Part of year-end portfolio review. • After offsetting losses, can use $3,000 of capital gains to offset ordinary income. • Evaluate for repurchase after 30 days (to avoid wash sale rule)
o To upgrade quality or expected return of portfolio.	• Determine round trip cost, amount to invest in new stock after taxes and commissions. • Use Toolkit Challenger or Stock Analyst Cost of Switching tool to evaluate. • Use NAIC Challenge Tree to evaluate.
o Because fundamentals have changed.	*Proceed to Section C.*

C. EVALUATING CHANGING FUNDAMENTALS

REASONS	CONSIDERATIONS
EPS or revenue growth is slowing or falling.	• Company may be entering a new stage of slower growth or stagnation. • If considering additional purchase, use caution. The worse a company performs, the better a value it may appear on the SSG.
Quarterly pre-tax profits are falling.	• Use PERT graph to evaluate PTP. • Three quarters of consecutive declining PTP are a danger sign. • Five consecutive declining quarters are usually a definitive sign to sell.
Cash flow is diverging from net income.	• If free cash flow is falling while net income is stable or rising, company may be “propping up” profits.
Other fundamentals are deteriorating.	• Accounts receivable rising faster than sales. • Inventories rising faster than sales.
There has been an uncertain change of management.	• Dynamic company leader retires, replacement has questionable qualifications. • Senior executives leave en masse. • Those responsible for past success are no longer with the company.
Company faces direct or indirect competition.	• Competitors threaten to affect the company's long-term prosperity. • Companies with very high profit margins are often susceptible to increased, cutthroat competition.
Company faces uncertain product cycle.	• Company is too dependent on single product. • No new products in pipeline (such as pharmaceutical companies).
Company has uncontrolled raw material costs.	• Can harm profit margins. • If company doesn’t hedge, they may have no option but to pay higher prices for necessary materials.
Company is the victim of fraud or “accounting irregularities.”	• If the books are being cooked, investors will be last to know. • No way for investors to know if management is lying, or auditors are covering up. • Get out fast; these are not quality companies.
Company’s debt rating has been lowered.	• Can often be an early warning sign of greater problems in the future.

D. FINAL CONSIDERATIONS

- Don’t hesitate to sell in retirement accounts where taxes aren’t an issue.
- Don’t automatically buy because a stock falls in price; re-evaluate as if new.
- If you won’t purchase additional shares of a fallen stock, why would you continue to hold it?
- Don’t “wait to get your money back” from the stock – it doesn’t know you own it.
- Don’t be paralyzed by uncertainty.
- Don’t be an ostrich with your head in the sand – face up to the problem.
- Remember NAIC’s Rule of Five.
- Use Challenge Tree to continually upgrade your portfolio.
- Think “replace,” not “remove.”

