

Consideration of Stock Sale

Basic Data

Company	Symbol/Market	Current Price	Date
Pre-Tax Profit on Sales	ROE	Debt/Equity	Last 4Q EPS
Upside/Downside Ratio	PE	5 yr Ave EPS	RV

Signs of Change

Consideration	Good	Bad	Comments/Notes
Is there a declining growth rates for sales and/or earnings? These almost always lead to declining Price to Earnings (P/E) ratios and lower market prices. A gradually-declining growth rate for sales and earnings may be the result of a company transforming from a high growth to a maturing company. Watch the research and development spending rate and the company's introduction of new products and services. These can affect the company's future growth rate.	No	Yes	
Has there been a management change? If old management was good (e.g., Iacoca), it will take 3 years for new management to screw it up, if at all; likewise, if good management replaces bad, it will take them 3 years to turn it around.			
Is the dividend payout ratio is too high (above 50%, except for special situations like utilities) and/or the percent earned on equity is too low? (Look for negative changes too.)	No	Yes	

Fundamentals

Consideration	Good	Bad	Comments/Notes
Are the profit margins declining? Declining profit margins are probably the best indicator of a downturn.	No	Yes	
Is the company's financial condition is deteriorating? Watch the amount of debt taken on and whether the company can meet payments if the economy slows.	No	Yes	
Are fundamentals good? Do not sell because of a paper loss if the company fundamentals are good.	Yes	No	
Is growth is satisfactory? It is very difficult to achieve bottom line (earnings) growth without top line (sales) growth. Use PERT and the SSG graph to judge this growth.	Yes	No	
Is this a growth stock? Do not sell just because the price has not moved. Growth stocks often grow in spurts.	Yes	No	
Are profit margins eroding? Use PERT to check the Pre-tax Income growth and the growth as a percent of sales.	No	Yes	
Are fundamentals good? If quarterly earnings lag expectation by a few cents and fundamentals are good ignore the panic selling but check the reason. If they are profitable with good fundamentals, you may want to consider buying more.	Yes	No	
Is the stock is grossly overpriced? Use the SSG to check the P/E ratio against the 5-year average, using a 12 month leading P/E. If the P/E is one and a half times the average, and the upside-downside ratio is less than 1, it is time to consider selling. Consider selling if the PE rises to 1.5 times the 5 year average. Sell if the PE ratio is too high unless for a quality company, e.g., Coco Cola. If contemplating selling consider taxes and sell/buy commissions. Use Challenge Tree. (STB SA has an excellent one)	No	Yes	

Fundamentals (continued)

Consideration	Good	Bad	Comments/Notes
If the earnings are going up and the profit margins are trending down , a decline will probably follow within a few years; follow closely.	No	Yes	
Is the stock price declining for no apparent reason? Institutional investors may know something you don't know. You can see the price history graphically if you have filled in the PMG stock prices several times a year.	No	Yes	
Is this a quality stock? In a Bear or Bull market it is the quality stocks that are the first to recover from the bear and the last to go down at the top of a bull run.	Yes	No	
Is growth satisfactory? The management's competence is under question. Examine PERT to note the growth in the various categories.	Yes	No	

Management and Market Considerations

Consideration	Good	Bad	Comments/Notes
Does this company have a good product mix? Do not buy a company that just has a single product.	Yes	No	
Does this company contribute to our diversification? To balance your portfolio. Avoid overweighting by company size, industry, or company.	Yes	No	
Is the investment climate for the company or the industry deteriorating and no improvement is seen on the horizon?	No	Yes	
Are insiders selling? Watch insider information if stock is declining in a rising market.	No	Yes	
Is institutional ownership reasonable? Do not buy if institutional ownership is greater than 65%. Volatility is usually caused by institutional trades.	Yes	No	
Is this stock in a competitive market? Watch highly competitive markets, e.g., TVs, computers.	No	Yes	
Is this a cyclical stock with a high PE? Metals, autos, and retails are most cyclical. Buy when PE ratios are high and sell when PE ratios are low. The SSG process is best with growth stocks; poor with cyclicals.	Yes	No	
Are we considering selling short? Leave selling short to the professionals.	No	Yes	

Wrong reasons for selling

- Selling because the price hasn't moved
- Selling because of a Paper Loss or a Paper Profit
- Selling because of Temporary Bad News
- Selling just to Take Action
- If you've kept a stock while it plummeted, don't sell it when it has fallen so far that any remaining downside risk is minimal compared to its upside potential
- Selling by using Price Targets, eg: automatically selling when stock has doubled or when it has dropped by a certain percentage
 - Any drop in price should flag the stock for further analysis; it should not, however, cause an automatic sell ...understand why things happen
 - If a stock has doubled, hold it to triple or quadruple

Wrong reasons for NOT selling

- You're emotionally attached to a company
- You hate to admit that you made a mistake
- You hate to take a loss, and you want to wait until the price rises back to the purchase price
- You don't know how to take advantage of a loss for tax purposes

Conclusion

- Selling, like buying, is not an easy decision
- You must look at the whole picture, not just at one or two numbers
- If 4 out of 5 selling decisions are correct, you should do well