

DO YOU HAVE A SELL PROCESS?

With the market so volatile, you need one in place.

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How should you plan to avoid forced selling? In the wake of all this recent volatility, you may be seeking a way to subtract as much impulse and emotion as possible from your sell decisions.

Have you set sell guidelines? While you can't control the market, you can plan to maintain control of your losses. Has your advisor worked with you to create a sell discipline? If you consider yourself a serious stock market investor, you really should have one.

When you are forced to sell, you are reacting. You are allowing headlines, pressures, or short-term money needs to force your investment decisions. Impatience takes over - and in the stock market, impatience is not your friend.

If your ultimate goal is wealth preservation, a sell process can be very useful. It can help you recognize a mistake and deal with it - fast. It can define what a "loss" is for you. It can set the conditions that signal when to sell.

There are many factors that can be used as sell determinants. Percentage of loss (or appreciation), poor fundamentals or financials, negative price action, underwhelming earnings, interest rate movements - they can all play roles in a sell strategy.

A good sell process isn't just about cutting your losses. It can also set parameters for exiting long-term winners and taking short-term profits. As a byproduct, a well-designed sell process may allow you to reduce risk exposure in your overall portfolio. It can help you periodically refine that portfolio as well.

The cost of trying to time the market. Hulbert Financial Digest undertook a study for Morningstar and found that from May 2008 to May 2009, stock mutual fund investors lost \$42+ billion as a result of buying high and selling low. In fact, investors with Class A shares in America's biggest domestic equity fund (the one with the most assets under management in May 2008) who just held the fund from May to May would have been down 31.4%, yet Morningstar concluded that the actual return for the average investor in that fund across those 12 months was -32.7%. Cash inflows and outflows revealed that the average investor had more money in the fund when it was declining than when it was rising. That 1.3% difference represents \$1+ billion in Class A shares in just one fund.¹

Sell smartly. Your sell process should align with your long-range financial objectives. A talk with your advisor can help you set the parameters of that strategy.

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Citations.

¹ nytimes.com/2009/07/12/business/mutfund/12stra.html [7/12/09]