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8 Reasons to Sell a Stock or Fund

Dividend cuts and changes in trend are a few reasons to let go of an investment.



By **Debbie Carlson**, Contributor April 25, 2019, at 2:28 p.m.



Reasons to sell your stocks or investments.

People often have reasons why they buy an investment, but many don't have specific reasons when to sell a [stock](#), mutual fund or exchange-traded fund. To make money or to take tax write-offs from losses, people need to sell their investments. But some people struggle with the decision on when to exit. Michael Bailey, director of research at FBB Capital Partners, says it can be difficult for average investors to realize it's time to let go. "A lot of people in general are more buy-and-hold investors," he says. "They just don't have a lot of experience with selling. It's a skill that most buy-and-hold investors don't have." Here are eight reasons to sell an investment.



The investment met its objective.

"Buy low, sell high," is a basic investing tenet. Bailey says people who buy a company's stock and see the business's fundamentals improve – such as better earnings, cash

flow or margins – and thus the share price gain in value, need to review their position. “The best-case scenario is the business gets better and the stock reflects it. You can say, the stock price now reflects all the good news and I’m out,” Bailey says. This type of investor usually has an objective plan when he or she wants to buy the stock and the reasons to sell it, even before he or she invests.



The investment suddenly gets hot.

Whether it’s a stock, [ETF](#) or a mutual fund, investments can go up without an improvement in the business case. Bailey says sometimes other investors will fall in love with a stock or a sector and buy an ETF, even if the earnings, revenues, cash flow or other key metrics don’t reflect the improved optimism. In this case, if the share price exceeds the fundamental reasons to own the investment, then it may be time to sell. “Sometimes it’s better to be lucky than right. That’s the case where let’s say the business did OK, maybe not great, and the stock has just gone up,” Bailey says.



The company cuts its dividend.

A struggling company often will see its share price fall because earnings are down. [Dividends](#) are paid out of earnings, and if earnings fall, it can be hard for the company make payouts. Craig Bolanos, CEO of Wealth Management Group, says a dividend payment cut is a warning sign that a company's balance sheet is poor and difficulties lay ahead. He says more often than not companies have not returned to economic prosperity following dividend cuts. He referred to the consistent problems General Electric Co. (ticker: [GE](#)) is facing, saying investors who sold the company the first time GE cut its dividend managed to avoid further losses. "If a company cuts their dividend, I'm out," he says.



Technical charts suggest a change in trend.

John Person, president of stock trading education firm National Futures, says technical price charts can help people make decisions for any investment. He uses longer term technical price charts, looking at how the investment is performing on a monthly basis, which helps filter out some of the day-to-day price swings. Two months of consecutive falling price closes, when prices close lower at the end of the month than at the beginning, could be a sign of a trend change. He says combining that indicator with how much selling volume happens when the investment falls can give investors a clue that institutional traders are selling and dragging down prices.



Investor sentiment changes.

Because many ETFs focus on a sector, these types of funds can be a broader market indicator of investor sentiment, says Andrew Whalen, CEO of Whalen Financial. If the changes in that sector affect sentiment, investors may want to act accordingly. For example, he says, when the Federal Reserve paused hiking interest rates, ETFs like Financial Select Sector SPDR Fund ([XLF](#)) fell because higher interest rates benefit banks. He adds recent weakness in [health care ETFs](#) are likely related to Democratic Party's presidential candidates' proposals regarding health insurance, which may have some investors spooked. "That could drastically affect the health care industry. When we look at ETFs, it's about industry-specific trends," he says.



A mutual fund's management changes.

Whalen says when he invests in [mutual funds](#), he looks for a strong management team with a long tenure and strict investment philosophy. Changes to the management team may be a warning sign and that it may be time to sell the fund. He gave an example of Bill Gross's departure in 2014 from Pimco, the fixed-income mutual fund powerhouse he founded. The company saw significant outflows out of the fund he managed: Pimco Total Return Fund ([PTTAX](#)). “When you have two or three portfolio managers running a mutual fund, if there's any kind of significant change there that can drastically impact the way the mutual fund is run, it can be a sell signal,” he says.



Capture capital losses or avoid capital gains.

Mutual funds pay out capital gain distributions annually, and even in down markets, investors may have to pay taxes when the fund lost money. Mutual funds will alert investors to these payouts ahead of time, giving people a chance to act. Whalen says last year when the real estate investment trust funds he held were down, he sold the investments before distributions to avoid having to take the capital gains. He sold those [REITs](#) and rebalanced into a U.S. large-cap fund, reaping capital losses that could be a tax write-off. “That was a specific instance of reallocating dollars to avoid paying taxes on capital gains in a down market,” he says.



The investment philosophy has changed.

Sometimes the reason to sell an investment comes down to personal changes, and the holder's investment philosophy changed, Bolanos says. That's the case whether the investment is a stock, ETF or mutual fund. Those can include needing to fund a large expense, such as paying for college. A change in philosophy can be as simple as the person is nearing retirement and needs to change their asset allocation from an emphasis on growth holdings to those that might pay income or produce dividends, he says.



Eight reasons to sell an investment.

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- The investment suddenly gets hot.
- The company cuts its dividend.
- Technical charts suggest a change in trend.
- Investor sentiment changes.
- A mutual fund's management changes.
- Capture capital losses or avoid capital gains.
- The investment philosophy has changed.