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## THE BIG SELL!



**Over the last month the HAM Small Companies Value Fund is up around 15% at this point. (Patience rewards value investors) It poses the very tricky question of selling stock.**

When asked about when to sell an investment, the legendary Charlie Munger said that he and Warren Buffett focus on buying assets that they never want to sell and effectively eliminate the sell decision from their investment strategy. Of course, that's a great theory but in practice the vast majority of stocks are cyclical and the inherent volatility of equities is such that exploiting this volatility is rational and having effective buy and sell strategies, makes sense.

In all the investing articles written by authors, journalists and fund managers, one may certainly draw the conclusion that the buying decision is what investing is all about but my experience suggests there is as much risk and opportunity in the sell decision as in the buy.

**I suggest that an investment strategy should incorporate a disciplined approach to selling** that is designed to do 3 things: minimize risk, maximize the return from each position, and fine tune position sizing to optimize portfolio performance.

I believe it is critical for every investment strategy to incorporate a sell consideration. For every buy decision there should be a number of potential sell triggers depending upon which future plays out. Investing is not about predicting the future but weighing the odds and when the odds fall in your favour you deploy capital. In the event that the odds don't play out as hoped then an exit should be executed and the same can be said for when things do play out as hoped.

The practice of minimising the size of individual investment losses is useful to investors for three reasons: **it minimizes the stress of large draw downs** and allows the

investor to stay rational, **it frees up capital to be used for more attractive situations, and of course, it minimises the quantum of losses.** The inherent volatility of equities is significant. To minimize the downside provided by this volatility and to maximize the upside of it for your portfolio is only logical.

The old trading adage of “cut your losses and let profits run” is useful in investing too and helps guide the design of our unique investing process.

**One of the most important aspects to successful investing is to have a system that you understand, that your temperament can handle and you have the intelligence, discipline and time to implement and you can probably add “passion” to that requirement.** Investing is a tough, unrelenting business and if you don't really like the process, success is unlikely.

For every successful investor, you will find a unique investment strategy. Of course, based on that principle, I can't tell you what your sell strategy should be but I can point to some of the sell triggers that I watch such as: **management is found to lie, certain expected criteria are not achieved by the company, unexpected earnings downgrades, sudden management resignation, share price moves to what I consider expensive, etc.** As you can see there is no price fall element because investors generally make decisions based on value and fundamentals (i.e. they buy when share prices are down). However, if price action such as momentum is a part of your decision making process then a sell strategy should also consider price action.

There is no such thing as a perfect investment strategy and it is impossible to buy right at the bottom and sell right at the top, but if your investment strategy gets you close most of the time then you are successful.

In my experience the best decisions are very uncomfortable, to buy when others are running for the doors, and sell when others are exuberant...this takes discipline and a sound process. There is risk in the sell decision don't underestimate it.

**It is not easy...and that's the first thing to acknowledge.**

**It seems like a good time (post results season) to catch up with existing and potential investors in our fund. I would like to host a number of in-house lunches or evenings to chat about stock, markets and the portfolio.**

**If you are interested in coming along, please reply by email.**

**Good investing,  
Nigel Littlewood  
CEO**