INVESTMENT STRATEGIES

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Should We Sell?

How to decide when to take profits

With the market sitting at all-time highs we believe it's a good time to again address one of the most difficult subjects in investing -- when to sell shares. The consistent market increase since 2009 has allowed investors to show some significant unrealized profits, and as we have said many times before, it never hurts to take a profit. There are always other good investments to purchase. Perhaps one of the worst experiences an investor can have is buying a stock, watching it gain nicely in price, and then having the price drop to below where it was originally purchased. Hopefully, we can help you avoid this pitfall to some degree! Remember the old saw to "Buy low, sell high."

One complaint analysts hear regularly is that there always seem to be recommendations on what and when to buy, but there are far fewer recommendations on what and when to sell. We offer the following items as some of the considerations our analysts use when looking at stock ratings as well as some considerations that must be determined by the investor alone.

Typically the main reason to purchase shares is the same for all investors: to make money.

The reasons to sell are more varied: to lock in a profit, limit a loss, because the investment has reached your price target, to engage in tax planning, or just to raise cash for personal use. Thus, a sell decision is often much more personal than a buy decision.

But whatever the reason for eventually selling, when first purchasing a stock we suggest having in mind a price at which you would sell the stock. Don't just buy because you believe the stock is cheap; buy because you believe the stock is worth a certain amount above where it is trading now.

As an example: say a stock is trading at $25 per share when you purchase it. What do you believe is the value at which it should be trading? If you bought it based on a low P/E (price to earnings ratio) of 10 times -- which equates to $2.50 per share in earnings (25 ÷ 10) -- and you believe it should be trading at 15 times, which would indicate a $37.50 per share price (15 x 2.50), then you should be ready to sell the stock when it closes in on such a multiple assuming nothing else changes.

If something changes, such as earnings upside or earnings coming in below expectations, you may want to re-visit your price target. But if the fundamentals remain the same and the stock reaches or comes close to your price target, be ready to sell. Yes, you may leave a little money on the table if the stock continues to rise, but that is preferable to letting it drop back to or possibly below where you originally purchased it.

Don't be greedy if nothing changes. Most investors will diminish the reasons to sell the security. *It's doing so well, why should I sell now?* Avoid the temptation to rationalize. There is always another attractively priced security available, in our opinion.

There are a number of fundamental reasons -- warning signs -- to sell securities. The first might be the significant outperformance of a security or group of securities over a period of time. Perhaps the best example we can think of is the NASDAQ Composite and in particular technology stocks in the 1990s. These securities outperformed both the market and what could be considered normal price appreciation for an extended period of time. We know now how that ended! If you see an industry group significantly outperform what the market normally does or is doing at the time, this could be a sign to sell or to at least lower your exposure to the group.

Has the group seen its valuation move above where it typically trades? A P/E multiple of a company or industry group well above historical norms is a sign of overheating. In our view, this could be a sign to reduce the size of a position. The higher the valuation on a security (or, for that matter, the market as a whole), the more potential risk in the security or market.

Any negative news is likely to have a more pronounced impact on the stock price if the valuation is high than if the stock is trading very cheaply, another consideration when looking at securities to sell.

Also look at the dividend yield. While this is less of an indicator of valuation, if a stock has gone up so much that its dividend yield (or the group yield) is well below where it has typically been given the current interest rate/inflation environment, it might be time to sell or lighten up. This is especially true if there are other security groups whose yields are more attractive and into which you can swap. Other similar metrics could include price-to-book or price-to-revenues. Various investment websites make looking at historical multiples, dividend yields, and other measures relatively easy.

Have other companies in the group encountered problems that have yet to be seen in the company you own? If so, it may indicate a time to sell or lighten up.

Also, if the market as a whole has begun to trend lower, but stocks you own have held up in spite of the overall market decline, you may want to think about selling. Many people say their companies are "better," which is why the share prices have held up, only to see those stocks' share prices ultimately decline too. Although some stocks may be counter-cyclical, no single company is likely to be immune to an overall market sell-off.

Has one security position grown to be very large relative to other holdings? If so, a sale of at least a portion of the position should be considered. If a single position rises to much over 5% of your portfolio, consider selling some of the position to reduce risk.

Also, if you have an outsized gain in a position, you may want to think about reducing your position. There is often a tendency to let your winners ride, but if you have a double in a stock, consider taking half of your position off the table. That way you are playing with "house money". You don't want to have a "round trip" on an investment.

It's important to remember you never realize a gain on a stock position until you actually sell the stock, something unfortunately illustrated to many investors over the Great Recession years as the markets declined and investors' prior paper gains evaporated.

Don't get married to a stock. Remember, it is just a stock, an investment, and can be replaced by another.

Among the most important things to consider are a.) Why did you purchase that stock? and b.) Does it still offer all of the attributes you purchased it for?

If not, you may want to sell outright and look for another stock that better fits your needs.

Additional information is available upon request.

We recognize each client's investment needs and goals are different. Opinions expressed here are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

Analyst Certification

I, John Roberts, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy: We believe the stock has significant total return potential in the coming 12 months. **Long-term Buy:** We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years. **Neutral:** We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise. **Underperform:** We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history. **2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks. **3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage. **4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

Other Disclosures

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