Chapter 6

When to Buy and When to Sell?

6.1 Best Time to Buy –

After selecting quality stocks, the next big question that comes to our mind is exactly when to buy and how to buy? The situation gets complex if the stock price moves up after the purchase. You will be in a dilemma, whether to buy more or just hold it, fearing that your average cost price will increase. For example, I had invested in Ajanta Pharma during December 2012 at ₹ 250. (*Note – During March 2015 Ajanta Pharma split from the Face value of ₹ 5 to Face value of ₹2. The price mentioned above is not considering the stock split*). My initial target was to add more quantities shortly, but the stock price appreciated heavily and touched ₹440 within 40 days of my purchase! At this junction, I was confused whether to add more or not. As the stock was showing 75% return within just 40 days of my purchase, I was surrounded by thoughts like- "Is there any room left for further appreciation?" "If I add more quantities at ₹440, then won't it affect my overall return?" Many similar questions restricted me to purchase more quantities. Frankly speaking, I didn't have enough courage for buying more quantities. However, my initial idea was different. It wasn't that this upmove was just by luck, fundamentals backed it. Price appreciation was mainly due to the better than expected quarterly result and improved future outlook; still, I failed to add more. Now let's have a look at further consequences.

Within 2015, Ajanta Pharma crossed 1500 level. Around 400% gain from the original purchase rate. Now let's consider two different situations and calculate profit accordingly –

First Situation – My original purchase

The second Situation – Repeat buy at various stages (at higher rates)

First Situation –

It is the simplest form of profit calculation without considering any “repeat buy”. One time investment of 2,50,000 for 1000 quantities at 250 per share generates a total profit of 12,50,000. (Follow the Comparison Table for the details)

Second Situation –

Now, let’s consider the case of repeat-buy throughout the journey. To be frank, I had the chance to enter thrice after my original purchase and each time I realised that the stock can be purchased even now. During February-2013, August-2013 and October-2013 I got the chances. Although I had enough money in hand; I failed to execute the plan. Following chart shows the detailed purchase pattern, if I had made repeat-buy on those three occasions.

Ajanta Pharma – Repeat-Buy			
Type	**Purchase rate/share**	**Quantity Purchased**	**Total Purchase cost**
Original Purchase (Dec,2012)	250	1000	2,50,000
Repeat Buy (Feb,2013)	440	600	2,64,000
Repeat Buy (Aug,2013)	500	500	2,50,000
Repeat Buy (Oct,2013)	730	500	3,65,000
Total		**2600**	**11,29,000**
Average Purchase cost per share = 11,29,000/2600 = 435			

Total Profit Calculation –

Profit calculation on the two different situations shows how I missed earning even better return from this extraordinary company. However, in percentage terms, profit is higher in the first case, but in absolute terms, it is much higher in “repeat-buy” case. I could have earned even more. I was successful in figuring out a “true” gem but failed to gain the most from it. Such opportunities are hard to find, and moreover, these don’t come on regular basis. So, if we can figure out such opportunity, we should try to make the most of it. If fundamental remains intact (and improving), one should not hesitate to add more even after 100% or 200% price appreciation.

Note – During March 2015 Ajanta Pharma split from the Face value of ₹ 5 to the Face value of ₹2. The price mentioned above is not considering the stock split.

Comparison Table - Profit Calculation on Ajanta Pharma		
Type	Case 1 - Original Purchase	Case 2- Repeat Purchase
Total Shares	1000	2600
Total Purchase Cost	2,50,000	11,29,000
Purchase Rate Per Share	250	435
Current Market Price	1500	1500
Profit per share	1250	1065
Total Profit amount	**12,50,000**	**27,69,000**

Lesson for Investors –

A great stock can be purchased even after 100% price appreciation. There is no best time to enter in high-quality stocks. If you can figure out an extraordinary business with great future potential, then it is never too late to buy. Timing is not required if you can spot a “true” gem. Even if you purchase a quality stock at the peak of bull-run, you won’t be disappointed over the long run. The only thing is that it should be a true “quality stock”. This statement will be clarified by the example of a well-known “high quality” stock; ITC. Suppose you had invested in ITC at the peak of 2007-08 bull-run. Let's have a look at the consequences on how your investment performed-

	Price Pattern of ITC (not considering split/bonus after 2014)				
Month, Year	January,2008	Jan,2009	Jan,2010	Jan,2011	Jan,2012
Stock Price (RS)	96	90	130	160	200

Even from the peak of bull-run during January- 2008, the stock delivered a positive return over the next two years. In fact, the stock generated 100% return within the next four years from the 2008-peak level! So, quality matters the most. Timing should never be a cause of concern for high-quality stocks. Instead of laying emphasis on timing, you should emphasise on finding evergreen quality stocks.

It Must be a Truly "Great" Stock –

One can still contradict the above viewpoint mentioning hindsight bias. However, entry timing don't have enough significance if you can identify a "truly" extraordinary evergreen business (although such companies are rare). A great business performs well across all economic cycle. Whether the inflation rate is high or low, whether interest rate cycle is moving upward or downward direction, great companies will perform consistently over a prolonged period. It is hard to find out such gems as the numbers of such stocks are very limited. Hence, they always trade at a premium over its peer. The biggest testimony of such stocks is that even during the market correction, these stocks don't fall much. While on the other hand, stocks with average or poor fundamentals suffer significant correction during the bear phase.

> *"There is no right or wrong time to invest. There are only right and wrong stocks."*

Important Consideration -

Nobody can predict the exact top and bottom of a stock (or market cycle) over a specific period. You can't buy a stock at the bottom and sell at the top. If you can, then it is just a matter of luck. It's almost impossible to repeat the same on a continuous basis. As an investor, you need not remain concerned about the timing. What should concern you is the quality because even after 50% or 100% appreciation, you can create wealth from quality stocks.

6.2 Misconceptions to be Avoided –

Misconception #1: - Stocks that are in 52-weeks high range are not safe investment.

During March 2013 I had recommended a stock called La Opala RG at ₹52 (split adjusted price). The stock was then trading in its lifetime high range. After that recommendation, reactions from few of my clients were as follows–

"I don't like to invest in stocks that are near lifetime high. Provide me some quality names that are close to 52-week low and are undervalued."

"The stock is already at its lifetime high range. So, how can you expect a multibagger return from this point?"

"How safe is it to invest in a stock which is in its lifetime high range?"

The stock continued its course of hitting the fresh lifetime high for the next two years and is still moving on that path. From the suggested price range, the stock appreciated more than 480% within next 18 months. By September 2014 the stock is quoting at ₹ 310. The gain of around six times within one and half year. During this journey, the stock created new records by hitting lifetime high many times. Those who didn't invest just for lifetime high range remained silent observer during the entire journey of this spectacular return.

During my initial years of equity investing, I too suffered from such bias. Stocks making fresh lifetime high month after month may not seem an attractive bet at first look, but the reality is that if the company can continue its growth momentum, then it can, or I must say it will hit fresh lifetime high regularly. Stocks (mainly midcaps and smallcaps) hitting fresh lifetime high during choppy or bear market requires special attention. Those can become a great investment bet.

> *"It' s never too late to invest in a great business"*

Misconception #2- Stocks that are near 52-weeks low range have greater potential to move up.

With the advent of the internet, it has become easier to find out stocks quoting around 52-week lows. Many investors take a deep interest in these stocks. Few even consider these stocks as "undervalued". It will be a great mistake if you mark a stock as "undervalued" solely based on the market price. A sharp crash in stock price doesn't ensure sharp run up.

Take the example of Educomp. From 2006 to 2008, the stock generated around ten times return. Around mid-2009, the stock price touched 1000 level. Within the next one year, it dropped around 500 levels. After such a drop many investors took a position, hoping that it will regain its past glory. Since the last four years (2010-2013), the stock was continuously creating fresh life-time low almost on a monthly basis. By September 2014, Educomp was available at ₹ 30. Just imagine, from 1000 to 30! Educomp was one of the greatest wealth destroyers in the decade. Each time the stock made new low; many investors invested their hard-earned money in it and got trapped. Investors commit a grave mistake by investing in these stocks and naming it as a value buy. There is a widespread misconception in the market that “what falls down must move up”. Unfortunately, the reality is “what falls down may fall sharper in the future”. Deteriorating business fundamentals can drag down the stock price year after year without caring 52-weeks low. Apart from Educomp, there are many more examples like Unitech, Kingfisher Airlines, IVRCL Infra, Lanco Infra etc. Many small caps and midcaps even vanished from the stock market after such freefall.

So, never invest based on just “52-weeks low” parameter. Find out the reasons why a stock is making “52-weeks low”. A deteriorating business can drag stock price year after year. Don’t get trapped. Later, it becomes challenging to move out from such traps. It is always advisable to stay away from stocks those are making fresh 52 weeks low on a regular basis even during bull market.

> *“Deteriorating business fundamentals can drag stock price year after year, without caring 52-weeks low.”*

6.3 When to Sell a Stock?

Selling is difficult than purchasing a stock. You will feel bad if the stock price moves up after selling. Here you need to accept the fact that nobody can sell at the top repeatedly. So, trying to figure out the exact top is a futile effort. Occasionally, you might be successful in selling at the top, but this is just a matter of luck. Selling decision should be based on pre-defined criteria, not on the stock price movement. Following parameters can be used to finalise your selling decision-

1. **Better Opportunities Available** –

The sole purpose of the investment is to maximise the return with calculated risk. If you can figure out any better investment opportunities other than your existing one, then you should shift over there. Don’t hold a stock just because you are holding it for last several years or just because it generated a great return in the past. Investors often get emotionally attached with their holdings and thus it becomes extremely difficult for shifting.

During 2009-2013, ITC generated around four times return. But after mid-2013, the stock became range bound. My perception is ITC can't generate that four times return in the upcoming four years (2013-2017). So, it is better to shift to other stocks for better return opportunity. I had invested in ITC during 2011. During mid-2013, I sold my entire stake at 60% gain and re-invested that amount in Yes Bank.

If I had continued to hold ITC then my return would be limited to 60-65%, however shifting to Yes Bank helps me to earn 60% and then 30% return. ITC is undoubtedly one of the finest quality stocks and fundamentally far better company than Yes Bank. ITC is a defensive bet while Yes Bank is not. Moreover, midcap banking stocks like Yes Bank is highly volatile. There are so many odds against shifting from ITC to Yes Bank. But at that time, the only point that I considered was chances of better return. After several years of run-up, ITC had turned expensive, and valuation was not matching with earning growth. On the other side, Yes Bank was growing at more than 20% consistently across economic cycles while maintaining the NPA at the lowest level across the industry, and the valuation was also attractive.

Never get emotionally attached to any stock. It is not necessary that the past winners will repeat the same performance in the future. Don't hesitate in shifting to the better opportunities even if the stock has given multifold return in the past.

> *"The sole purpose of investment is to maximize return."*

2. **Wrong Buying Decision-**

After investing in any stocks, later if you realise that the initial buying decision was faulty then you should exit from the stock at the earliest. Suppose you had purchased a stock at ₹100 and after three months it dropped down to ₹80. During that period you find that you have committed a mistake in your purchase decision. It may be due to wrong assumption or faulty financial ratio calculation or following wrong advice. Whatever be the reason, you should exit at the first sign of trouble. It doesn't matter whether the stock is up by 20% or down by

20% from your purchase rate. During such situations, if the stock price is higher by 20% than your purchase rate, then it becomes easy to exit. Contrary to this, it becomes very difficult to exit if you find that the stock is down by 20%. Investors expect for a bounce back to exit near the purchase price and recover the loss. But, this is a dangerous practice which has a high probability to widen your loss.

One of my clients had purchased Unitech during 2012 at ₹30. By June-2013, the stock price dropped by 30% and was quoting around ₹20. At that time, I advised him to book loss and re-invest that amount in PI Industries. After initial hesitation, he sold Unitech and booked loss of around 30%. Further, with the recovered amount, he purchased PI Industries. By the end of 2013, Unitech dropped to ₹14, while PI Industries generated around 90% return. If he had stayed with Unitech in a hope to recover the loss, then today not only he would be repenting but also deprived of such a great return from PI Industries.

> *"Always exit at the first sign of trouble. It doesn' t matter whether your investment is at loss or at profit."*

3. Valuation is Over Stretched-

One should exit from a stock if the valuation becomes too expensive. The problem is that there is no fast-forward rules to identify whether valuation is too expensive or not. Price to Earnings ratio (P.E) or Price to book ratio (P.B) can't tell whether the valuation is stretched or not. A stock with PE of 40 may not be expensive, while a stock with PE of 10 can be overvalued. We have discussed regarding the same in the previous chapter.

So, now the question arises, how to judge the valuation of a stock and find out whether it is overvalued or undervalued. (We addressed the issue in the "Valuation" chapter) One of the easiest ways to find this is by keeping a watch on market capitalization. Market size of the company itself says a lot. Check out the entire market size with respect to the market capitalization. Let's understand this with the help of an example. During 2007-08, telecom major-Bharti Airtel had a market cap of around 200,000 crores, whereas the entire telecom industry had market size far below than that. So, whenever the market cap of any stock becomes very high than that of the entire industry, you should remain alerted. Similarly, during 2007-08, real estate companies like DLF, Unitech were demanding abnormal market capitalization, which is a sure-shot sign of stretched valuation. Sooner or later price crash is obvious. Same happened in this case. During January-2008, Unitech made its lifetime high of ₹546. But, in the next seven years (after January-2008) the stock price dropped by more than 90%. By August 2014, the stock was hovering around ₹30.

Too much popularity is another sign of stretched valuation. Stay away from stocks those are recommended by everyone, and the stock price is moving at an abnormal rate. Find out the overall industry size, total revenue of the company and compare it with market cap. Is there any further room to grow? Is there any widespread enthusiasm on a particular stock or a particular sector? If yes, then sooner or later the stock price will crash. So, you should exit as early as you can identify these symptoms.

4. **Change in Fundamentals**–

Many a time's business fundamentals can change abruptly. For example Deccan Chronicle Holdings Ltd (DCHL) was the owner of few popular newspaper and magazines. They had market leadership in their own niche. However, later they went into unrelated diversification. They spent around 60 crores to buy out Odyssey, the leisure, retail and bookstore chain. Subsequently, DCHL purchased the IPL cricket team "Deccan Chargers" for $107 million in January 2008. At this junction, if anyone holding the stock just because of its market leadership in newspapers, should immediately exit because the fundamentals have changed and are no more intact. Due to such unrelated diversification, the company accumulated huge debt and later moved towards bankruptcy. From the lifetime high of ₹270 (during December-2007), the stock price came down to ₹3! Yes only ₹3! 98% loss in 7 years.

Similarly, if you purchase a high growth stock and later the growth outlook changes or some external factor makes it difficult to grow, then you should sell immediately. Exit from a stock where your original purchase reason is no more valid. During 2006-2009, Educomp was considered as one of the fastest growing companies from the "sunrise sector". Many investors chased this stock because of its high growth rate and excellent stock price return. The stock generated around ten times return within 2006 to 2008. However, post-2009 the situation completely changed. Growth muted and the company no more had potential left in it. Still many investors preferred holding it during 2010 because of so-called “attractive valuation”. Purchasing a high growth stock and continue holding it because of cheap valuation is one of the biggest mistakes that investors commit. It can completely erode your wealth. Have a look at the Educomp stock. From the peak of 2009, the stock price crashed by more than 90% within next three years. The irony is that even after six years the stock is still down by 95%!

Investors should immediately exit once a “high growth stock” loses steam of growth due to fundamental changes. Holding such stocks can only maximise loss.

> *“Immediately exit from a stock where your original purchase reason is no more valid.”*

5. **Changes in Management** –

Great management can turn an ordinary business into an extraordinary while a bad management can turn a good business into a bad one. Investors should consider a change in leadership position as one of the important events and should take decisions based on it.

Infosys is one of the most common examples. Under the leadership of N. R. Narayana Murthy, the company achieved several new heights. Later, when Mr Murthy stepped down from Infosys board, the company started losing its glory. Tata Consultancy Service (TCS) replaced Infosys and became the most valued IT Company in India. While its peers kept growing at a decent rate, Infosys lagged behind. The stock price also underperformed during the same period. Mr Murthy had set the bar to the highest level, so obviously, it became difficult for his successors to maintain the same level. There are many more examples when a great company lost its glory just because of change in core management or due to acquisition by some other player.

> "Poor management can turn a great business into an

6. **Develop a Pre-defined Exit Strategy While Investing in Stocks –**

The pre-defined exit strategy is must for every investor. If the reason of purchase is clear, then you won't find any difficulties in exiting. Suppose, you bought a stock because of its 30%+ growth rate then, you should sell it whenever the growth slows down. Don't put a second thought. Don't rate the same stock as "value buy", if growth rate slows down and stock price witnessed a crash. For example, during 2004-2007, BHEL (Bharat Heavy Electricals Limited) was considered as one of the high-growth stocks. Post-2009, growth rate slowed down, and many investors rated the same as "value buy". If the rationale behind your investment was growth story, then better to make an exit as soon as you witness the first sign of slowdown.

Similarly, if you purchase a stock based on rupee depreciation theme or interest rate cycle theme, then you should sell whenever the cycle reverses. It doesn't matter whether you are in profit or loss. During 2013, Indian rupee depreciated a lot. Export-oriented sectors gain the most during such situations. Information Technology sector was the biggest gainer of rupee depreciation as they earn in dollars and spend in rupees, thus leaving a positive impact on the profit margin. Investors had deep interest towards IT stocks during that period. From 2014, the cycle started reversing. After sharp depreciation, rupee stabilised around 60 per dollar. At this point, investors who purchased IT stocks solely based on "rupee depreciation" theme should exit from them. Selling becomes much easier if you have certain reasons to invest. So, before investing develop an exit strategy and strictly follow the same.

> "Selling a stock won' t be a problem if your purchase reason

Don’t Repent After Selling-

“Stock price appreciated by 50% after my exit. So I am losing 50%” – this is a well-known confession from investors. I have also faced similar experience where the price appreciated heavily after the exit. During June-July of 2013, I had invested in PI Industries (Agri Input Company) at around ₹130 because of good monsoon. The company was growing at a healthy pace with strong balance sheet and was available at a reasonable valuation. However, the primary reason for my entry was “better monsoon forecast”. As forecasted, monsoon was above average throughout the season. Almost every company related with agriculture performed well. PI Industries also performed exceptionally well and reported strong results for the next three-quarters. Within eight months of my investment, I was sitting on 100%+ gain. Further, during March-2014 Meteorological Department forecasted poor rainfall and even drought like situation. I didn’t put a second thought and sold my entire stake around ₹260, thus gaining 100% profit within ten months. My rationale for investment in PI Industries was great monsoon, and now when the situation of drought came, the rationale got diluted. So, I made an exit.

However, as the time passed, monsoon forecast was proved wrong. The situation didn’t turn that bad as predicted by the weather department. PI Industries continued its great show. By the end of 2015, the stock price was hovering around ₹500. Further 100% gain from my selling rate. So, what should be the course of action? The stock doubled from my exit level, so should I cry? Obviously No! I won’t bother even if the stock price increases by 500% from my exit level. I had a pre-defined strategy, and I just executed it. So I am happy with it. No point for regretting. Every year a dozen of stocks are getting doubled. However, you don’t have to participate in every opportunity for making money!

Don’t repent after selling. You need to admit that nobody can identify the top and exit accordingly. Timing the market is next to impossible. On few occasions, you may exit at the top, but that is just a matter of luck. You need to accept that you can’t buy at the exact bottom and sell at the exact top.

6.4 Deadly Mistakes to be avoided

Mistake #1 - Investing in previous bull market stocks:-

Investors are more comfortable in buying past winners. For example, during 2012, an investor approached me with his portfolio that was at 80% loss. A detailed look at his portfolio suggested that throughout the year 2010-11, he had purchased stocks which ruled the market in the previous bull-run. Stocks like Unitech, DLF, BHEL, JP Associates etc. comprised his portfolio. During 2005 to early 2008, Indian stock market was in a strong bull run. Infrastructure and real estate stocks led the show. Unitech, DLF, BHEL, etc. were the stocks which headed the bull market and were considered as hot favourites among investors. The bubble busted around early 2008. By 2009, the price of these stocks dropped by 50%-80% from their 2008 peak. Past winners may experience some run-up but it's hard to repeat the same trend. In the meantime, previous bull market stocks may experience a small pull back but can't set a new trend. Unfortunately, many investors got trapped during such minor pull back.

Let's have a quick look on few previous bull market stocks and the time taken to reach their previous peak-

Previous Bull Market Stocks			
Stock Name	**Previous Bull Market high**	**Time taken to cross previous high**	**Price on July,2014**
Infosys	₹1726 (March 2000)	6 years	3300
Wipro	₹980 (March 2000)	Still below previous high	536
Unitech	₹546 (January 2008)	Still below previous high	25
Larsen and Toubro	₹1500 (December 2007)	7 years	1468

You can see the surprising figure from the above chart. Company like Infosys even took six years to touch its previous high. Wipro touched its lifetime high during March 2000. Even after 15 years, it failed to touch the previous height. In the above chart, you are getting some well-known largecap names. Apart from those, there are hundreds of smallcap and midcap names those just vanished from the market after leading the previous bull-run. Post dot com bubble many smallcap software companies vanished. It's hard to recall those names. So, be careful from previous bull market stocks. Further, it is advisable not to touch smallcap names those lead previous bull-run.

"You should purchase quality stocks when they are moving up on improving fundamentals not while they are falling down [illegible]"

Mistake #2 – Holding losers too long -

Fear of losing money always overshadows the joy of winning. Investors always prefer to avoid loss, but in the process, many investors commit a grave mistake that can multiply their loss. Suppose, you had purchased a stock at ₹100 and after one year the stock price dropped down to ₹50, then what should you do? Maximum retail investors either hold the stock hoping for recovery or they add more to average out their buying price. Unfortunately, both are deadly mistakes that can only multiply your loss. The following example will illustrate the situation in a better way-

While reviewing the portfolio of one of my clients, I noticed a peculiar situation. In his portfolio a single stock Suzlon constituted around 40% of his holdings and the same was showing 50% loss! I asked him the reason for such a high allocation. The reply was shocking. He added more and more stocks at every downfall to average his purchase cost. The following chart will illustrate his buying pattern –

Purchase pattern of Suzlon

Type	Purchase rate/share	Quantity Purchased	Total Purchased cost
Original Purchase	90	1000	90,000
Repeat Buy	75	300	22,500
Repeat Buy	60	250	15,000
Repeat Buy	50	200	10,000
Repeat Buy	45	100	4,500
Repeat Buy	40	100	4,000

Total		**1950**	**1,46,000**

By this way, he purchased 1950 stocks at a total cost of ₹1,46,000. The average purchase price per stock becomes ₹ 75 (1,46,000/1950). In spite of knowing the fact that the business fundamentals may not improve soon, he continued his purchase just to average out purchase rate per share. Initially, his original purchase rate per share was ₹90, but after several repeat-buys, purchase rate per share came down at ₹75. He was successful in averaging out his acquisition cost, but the irony is that during this process he kept on multiplying his loss.

After two years of holding and several repeat-buys, he finally sold his entire holding at ₹30 per share. Now let's calculate his loss considering two different scenarios-

Scenario 1 – His original situation i.e. several repeat buys to average out his acquisition cost.

Scenario 2 – No repeat-buy, only one-time purchase

Loss Calculation		
Description	Original situation	One-time purchase
Total Number of Shares Purchased	1950	1000
Total Purchase Cost	1,46,000	90,000
Average- Buy cost per share	75	90
Selling price per share	30	30
Total Sell Value	58500	30000
Total loss	**87,500**	**60,000**

As shown above, in the table, total loss stands at ₹ 87,500 in the original scenario. Had he stopped after first purchase, then the total loss would have been huddled at ₹ 60,000. A whopping difference of 27,500! However, he succeeded in bringing down his average purchase cost, but in this process, he committed a great mistake.

On the contrary note, an investor should not sell a stock just because the stock price declined by 10%-30%. If fundamentals remain intact, then there is nothing to worry. Even the best quality stocks can suffer 10%-30% price correction during the adverse market situation.

Holding too long to minimise loss –

During another portfolio review, I noticed that one of my clients was sitting on around 50% loss from the investment on BHEL (Bharat Heavy Electrical Limited). This company was once considered as a blue-chip. However, the situation changed post-2008. I suggested him to exit from BHEL and book loss. Selling a stock at 50% loss is painful, but I advised him to exit to avoid further pain in future. Unfortunately, the client presented a different logic. He had purchased the stock around ₹ 500 during 2010, and at the time of conversation, during 2012, the price was hovering around 250. He termed himself as a long-term investor and told that he can wait 2-3 years to recover his loss. After two years of holding, the stock was showing 50% loss in his portfolio but still, he is ready to hold for another 2-3 years to recover his loss! Even if the stock price attains the 500 levels (his original purchase rate) in another two years then what will be the net gain? Net gain of 0% after four years of investment! Isn’t it a better idea to book 50% loss and re-invest that amount in another quality stocks to recover the loss. I failed to convey this message. As a result, he didn’t sell the stock and kept his holdings intact. Later after one year, during 2013, the stock price dropped further to 170-190 level. During this period the client again called back to me. This time he was frustrated with such a huge loss. From ₹500 to ₹170. The loss was then increased from 50% to 66%. My suggestion was the same. It is always prudent to sell deteriorating business and re-invest that amount into high-quality stocks with improving fundamentals. Irrespective of your notional loss, you should sell losers and fill that gap with winners. Finally, the client sold his entire holding at ₹170. He ended up with 66% loss. If he would have sold at ₹250 then he could have restricted his loss at 50%. Investors prefer to hold losers for a long while booking early profit from winners. You need to do the opposite. Hold on the winners to maximise the gain and exit from losers. Holding too long to minimise loss is an idea which will eventually hurt back. I am quite sure many of you might have faced such dilemma during your investment journey.

What should you do?

Exit from your investment if the purchase reason is no more valid or the purchase rationale was proved wrong. Don’t look at your purchase rate while you are making an exit. Otherwise, you will get stuck. Your emotion will restrict you to sell when you find that the current market price is below than your purchase rate. 95% retail investor confronts this problem. Even after knowing something is wrong, many investors wait for a bounce back. They hope that one day the stock price will come near the purchase rate, and they will be able to recover the loss or at least minimise the gap, but the opposite happens. Loss widens further! Losing money is painful but widening the loss is disastrous.

> "Holding too long to minimize loss or buying more stocks to average out your purchase price can eventually widen your

Mistake #3 -Selling winners too early-

Suppose there are ten stocks in your portfolio. 4 stocks are showing 20%-30% gain, and another six are showing 20%-30% loss. What should be the priority order for selling?

Maximum retail investors will rush to book profit while holding the losers. In such a manner they keep accumulating poor quality stocks and throw away good stocks. You may hope that the losers will bounce back someday and keep on holding it. It is not necessary that "what falls down will move up". What falls today may continue to fall tomorrow if the underlying business is not so strong.

You should pay maximum attention to losers. Why is stock price going down? Is there any valid reason or just short term phenomena? Stock price might correct due to the overall weakness in the market. Such correction is temporary. However, price correction due to the fundamental deterioration is permanent in nature. So, you have to differentiate it. Cross check your investment rationale. You might be wrong at the very beginning. Your assumption may prove to be wrong at later stage. Whatever be the case, don't hesitate to book loss if you were wrong. Admit your mistakes and re-invest that amount in other quality stocks to recover the loss.

Mistake #4 – Selling to buy at lower level –

Many investors sell their profit making stocks at a higher level just to re-enter at a lower level. This is widely seen among retail investors. They sell the stock and get satisfied with the notional gain and further look for corrections so as to enter at lower levels. Putting simple, if you find your investment quite promising then why exit at any up move? If in case, you are expecting any corrections in the near future, then it's better to add more at lower levels. It will not only help you gain more but also lower down your average buying cost. Don't try to time the market. It might happen that after your selling you won't get the chance to re-enter at lower level. You are waiting for lower level and exactly then the stock takes U-turn. You are waiting in a queue, and stock price never came in your desired range. It can result in a huge opportunity loss. So, don't sell to buy back at lower price. **Don't invest like a trader and don't trade like an investor!**

POINTS TO REMEMBER

- It is never too late to invest in truly "high quality business".
- You can't buy at the top and exit at the bottom.
- One should exit at the first sign of trouble. Don't be late to exit from an investment where your purchase reason is no more valid.
- Don't repent after selling.
- Selling won't be a problem if your purchase reason is clear. Develop a pre-defined exit strategy at the time of investing.
- Don't sell to purchase at lower level. You may not get lower rate to entry. Further, frequent buying and selling increases transaction cost and tax that eventually reduces overall return.
- Holding losers too long to recover your loss can back fire you. It can eventually widen your loss.

- Don’t be hurry to sell-off winners rather exit from losers as soon as you find the first sign of trouble.