Chapter Ten
When to deal in shares

Never be afraid of missing the boat – it may turn out to be the Titanic.

ELIOT JANEWAY

The early bird catches the worm, but the second mouse gets the cheese.

STOCK MARKET ADAGE

A businessman is someone who buys at ten and is happy to get out at twelve. The other kind of man buys at ten, sees it rise to eighteen and does nothing. He is waiting for it to rise to twenty. When it drops to two he waits for it to get back to ten.

V S NAIPAUL, *A BEND IN THE RIVER*

The obvious answer on 'when' questions is to buy when they are cheap and sell when they are dear. Predictably, there are problems involved, including deciding how you define cheap, finding the stock that is cheap and deciding whether it is cheap or just a poor bet. So important is this aspect that experienced investors will tell you it is more important to judge when to buy than what to buy.

One problem with the stock market is the herd instinct that drives it hither and yon on superstition, greed, fashion and uncertainty. So when the market is rising everybody piles in because they fear being left out when there are profits to be made. They are convinced that trends will continue, so no matter what has happened so far, shares are cheap because they will probably go far higher. In the reverse phase, investors, private and institutional sell shares which, on most criteria, would be reckoned cheap, because they expect them to go on plunging further.

In 1710 to 1720 a series of 'bubble' companies burst onto the stock market, of which the South Sea Company (actually the full and splendidly rolling name of the enterprise was The Governor and Company of Merchants of Great Britain Trading to the South Seas and Other Parts of America and for Encouraging Fishery) was merely the most notorious. Its shares were issued at £100 and started 1720 at £128 10s 0d. By August they had reached £1,050 but finished the year back at £124 before the company collapsed. The boom was generated by mad enthusiasm over a company that took over the national debt in return for having a monopoly of trade in the Pacific. Then people realized the company was more preoccupied with ramping its shares and providing directors with a good life than with any business. That caused the bubble and the company to burst and the shockwaves sent others toppling, as banks, shops and individuals went bust as a result.

In the 1830s it was railway mania, with any company even vaguely connected with trains being relentlessly pursued by investors wanting to put yet more money into it. More recently we have had other enthusiasms. At one time being in computers was all the rage and anything to do with electronics saw its shares knock the roof off. The internet grabbed the imagination to produce eye-watering share price rises. Later the enthusiasm moved on to biotechnology when miracle drugs, 'silver bullets' and panaceas were reckoned imminent.

You can recognize a bull market reaching its peak by the unanimity of opinion that happy days are here again. Even the tabloids start talking about the stock market; there are pictures everywhere of champagne-swilling young dealers; serious economists saying this time it is different; people who would not normally know a balance sheet from a bed sheet start buying shares; and the shares themselves are on absurdly high price/earnings ratios and low yields. A sign the market is pretty well at the bottom is when share prices have been discounted for doomsday – prices have allowed for more massive slumps than it is rational to expect. In fact the share prices have anticipated so much bad news that they no longer react to it when it comes. On the other hand, the price does start to stir and rise a bit when even the slightest glimmer of good news comes along. That is the time to start hunting for good value.

The turn happens in one of two ways. There is either a sudden trigger like a huge and swift hike in the price of oil, banks suddenly realizing they have been lending money on fresh-air security, or just a lassitude when nothing seems quite right. The shares fail to respond to good news, but relapse at every sign of adverse news. That is when to stop buying, at the very least. Similarly at downturns institutions and private investors prepare for the end of capitalism as we know it. The bottom is nigh when everybody agrees the economy is sliding and will stay low for at least two years.

To be fair there is also in part a rational reason for all this: during booms people have higher disposable income both for direct investment and for pensions and insurance (with those companies then channelling part of the cash into the market), while during a recession there is unemployment, negative equity in one's home and an absence of pay rises.

When the market has been sliding for some time the careful investor will start to check whether the bottom can be in sight. You have to face the fact that you are very unlikely to buy at the absolute bottom or to sell at the very top. If you manage either, never mind both, admit it to be a pure fluke. So there are two possible timings: when it (the market, the sector, the individual share) is still heading down but one has a reasonable feeling there cannot be much further to go; and when prices have just tentatively started coming off the bottom. Get the timing wrong in a downturn and the prices will continue to tumble, and it takes a hardy soul with a gambler's instinct to go in for 'pound cost averaging' – putting the same amount in again as the price falls to get even more shares.

That sort of thinking applies to the market as a whole and also to individual shares. A very successful large company into which everyone has put their pension money for years, suddenly stumbles. It makes a few mistakes, loses some orders, miscalculates the market or whatever, and issues a profit warning. The disillusion hits the professionals so badly that they abandon the fallen star in droves. Though small companies die in dozens and the occasional middle-rank company succumbs, it is fairly rare for a major commercial undertaking to go belly up. There have been the Leylands, Polly Pecks and the like over the years, but that is still pretty unusual, and massive collapses such as the 2008 folding of Lehman Brothers, one of Wall Street's largest banks, are thankfully rarer still. But as that shockwave-causing fall showed, they can still happen. Even if the board cannot immediately retrieve its mistakes, bring in new managers or just get back on its old track, there is a good chance somebody will be waiting to snap up the business in a takeover.

At the simplest level, much of the investor's aim can be achieved by being just counter-cyclical: see which way the herd goes and head the other way. On the other hand, it takes strong nerves to buy in a bear market when gloom and despondency suggest shares will plunge further and companies will topple over by the score. It also takes stern self-discipline to take profits in a roaring bull market knowing shares may well rise further and one is therefore forgoing some of the extra profit. There is, however, an old stock market adage for such dealing: always leave some profit for the other fellow.

Like all other contrarian views it takes caution and care. The people who specialize in this sort of investment normally wait until the first and second tumbles have worked through the market and the share price is bumping along a steady low, before starting to buy.

There are two sets of timings to consider. One concerns the market as a whole, and the second is for the individual share that has already been identified (by the decisions discussed in Chapter 5). Among the factors affecting the market as a whole are:

- the general economic cycle (and that could be anything from a recovery to a slowing in anticipation of a recession);
- the level of inflation;
- interest rates, since they affect consumer demand as well as the costs of business and hence its profitability;
- tax levels and the changes;
- the relative strength of the currency, since that affects the costs of imports and the competitiveness of exporters;
- the political situation, including the proximity of elections and who is likely to win.

There are other influences as well. For instance, the London stock market reacts in sympathy with US stock markets. This provides the background for looking at and trying to extract information from recent price movements, and sets the context for examining individual companies.

At the end of the 19th century Charles H Dow, who helped start the Dow Jones Index for the Wall Street Stock Exchange as well as found the *Wall Street Journal*, detected a pattern in share price movements. He reckoned these followed a regular enough progression to be able to forecast where the price will go next.

The Dow Theory says there are great long-term patterns, called 'primary trends', which create the bull or bear markets that can dominate an economy for several years. Within that there are shorter-term fluctuations that go against the overall trend, reinforce it, or predict its turn, and these he called 'secondary reactions'. Finally, there are the daily oscillations that are called, predictably enough, 'tertiary patterns'.

The accountant Ralph Elliott worked on a grander scale. He talked of 'supercycles' lasting 150 to 200 years within which there are shorter fluctuations. There are many books on such topics, but they are probably a touch specialized for an amateur investor.

Within these grand economic cycles are price movements of the market and of individual shares, and if the trend or pattern can be spotted in time there is an opportunity for profit. This is the province of the technical analyst who relies principally on charts of market changes. At the most bloodthirsty these people assert it is not necessary to know even the name of the underlying instrument, whether it is a share, a currency or a commodity, because everything is in the price. More particularly, the price is set by market psychology and, since human behaviour is fairly constant, the pattern can be extrapolated. The trick is therefore to detect patterns in time and then act on them. That requires charts, usually of price movements.

Charts represent one of the two main ways of assessing a share. The other is fundamental analysis – the study of the company and its accounts, the markets in which it operates, and the quality of its management (see Chapter 6).

The aim of all these is to reinforce other criteria for choosing a share or a time for buying, and not to use them in isolation. That applies also to different types of chart. Checking to see how the price of a company's share moves in relation to the market as a whole is sometimes an indication to help with the decisions. Shares with a wildly fluctuating relative strength are likely to be unpredictable performers and so a more risky investment. On the other hand, if the company has for some time been sagging, with the shares consistently underperforming the market as a whole, and its relative strength starts improving, this might underline the decision to buy that was prompted by other signals. These may be better at giving added information about individual shares than about the market as a whole.

William D Gann, a mathematician and successful trader in shares and commodities, produced a variant of this, concentrating more on support and resistance levels and the speed of price change, but the explanation is well nigh incomprehensible to anyone with less mathematical expertise. Its link to Chinese horoscopes has provoked some traders into dismissing it as mumbo-jumbo.

The patterns in share prices can be explained by psychological descriptions of the way people behave, and these seem quite plausible, but not to the academics who have used mathematical analysis to produce the 'random walk' theory. This says the prices move totally unpredictably and charting the tossing of a coin would produce similar patterns. In addition, the efficient market hypothesis says information is so swiftly and uniformly disseminated that nobody can get an advantage to outperform the market. That, however, ignores the time factor, and the obvious fact that some people do very nicely indeed, thank you.

It is not quite as straightforward as a brief explanation makes it sound. Even if the random walk theory and efficient market hypothesis are dismissed as being not universally applicable, there are problems with charts. For a start they require expert interpretation of shapes that are seldom as simple and obvious as the illustrations in books. Just when does a fluctuation indicate a turn and when is it merely a temporary correction? Even with other financial knowledge to test the plausibility of an indicator, and even with extensive experience interpreting charts, the chances of making a mistake are high. That means making a fallible subjective judgement about a developing pattern, and some people are better at this than others. False signals and easily misinterpreted patterns could lead an investor into penury.

For instance, one task is to assess whether the current trend is likely to continue – if you are in a boom market, will the euphoria continue long enough to buy the shares and reap the benefits, and if it is a soggy bear market, can you predict when it is likely to turn up again? This is made all the harder by the short-term fluctuations within the longer-term movements or, as the distinguished economist Sir Alec Cairncross put it:

> A trend (to use the language of Gertrude Stein) is a trend is a trend.
>
> But the question is: will it bend?
>
> Will it alter its course,
>
> Through some unforeseen force,
>
> And come to a premature end?

The second problem is that if charts were really helpful and accessible, they would get widely adopted, other investors would rely on the developing pattern and the self-fulfilling prophecies would run away before the amateur could get involved. There would also be repeated attempts to spot the direction of development before it was complete, which would distort the shapes and cause confusion.

Professionals do not rely on charts as the trigger or guidance, but use them as an adjunct to other investment criteria. What this all boils down to is trying to get additional help on timing. That means timing not just for the individual company but for the sector and the market as a whole. That applies with equal force on when to buy or sell. A measure of how well-priced the shares are is the yield gap. That is the difference between the yield on ordinary shares and the return to maturity of gilts.

Charts

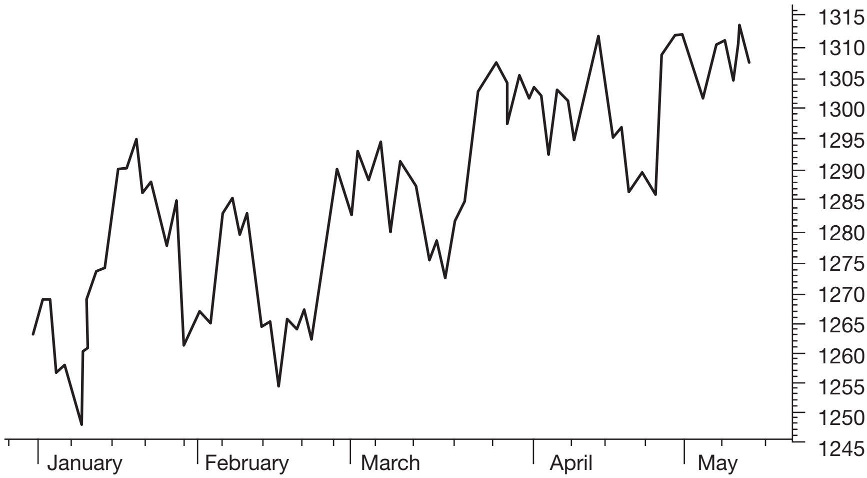
Charts are a useful adjunct for the private investor because for once there is parity with the professionals. Both have access to the same information and it is the skill in interpreting the data that makes the difference. But just as there are swarms of people with their own pet theories on how to pick the winners, so there are fanatical chartists looking for the philosopher's stone. Their greatest value is to focus the mind on the fact that in a market the correct price is what somebody is prepared to pay, so charts do provide a bit of discipline for private investors by making them concentrate on supply and demand, price and timing.

Lines

For successful predictions you have to be able to recognize the patterns that any of these lines follow; see Figure 10.1. There are the overall trends for instance – up, down or sideways – detectable by joining the peaks and troughs (or bar tips) of the fluctuating lines of prices. In a sideways market, when the price oscillates between two horizontal lines, a wise chartist waits for a 'breakout' signal when the price finally shows which way the market is now going to go.

One answer is not to worry if the share is taking a favourable long-term path. For instance, take a company with shares that are notoriously volatile – it may look like a sideways movement but the two trend lines are a long way apart. The price bounces up and down on rumour and gloom, or profit-taking and bargain-hunting, without

FIGURE 10.1 Lines



any obvious long-term direction. For an alert investor, that can provide a nice little earner. Just examine when and by how much it tends to oscillate and keep hopping in at the bottom and out at the top. This is safer in largish companies, which also means the gains will not be enormous, so the deals have to be large enough to offset dealing costs.

The chart patterns have graphic names to help. A 'support area' can be detected by the price dropping to but constantly rebounding from a specific price level, and there is an upward equivalent called a 'resistance level'. If the market breaks through the established resistance level, chartists reckon the price will rise substantially to a new high, and similarly in reverse for breaking through a support level.

There are also 'double tops', which as you would expect have twin peaks and indicate an imminent drop, with a 'double bottom' being the upside-down equivalent, A 'head and shoulders' is a peak flanked by two smaller peaks and indicates the reversal of an upward trend, signalling an imminent fall. Understandably, a 'reversed head and shoulders' is the same thing upside down, forecasting a rise.

'Flags' are parallelograms with a mast down at least one side when a sharp change is followed by a sideways fluctuation within a narrow range. If the flag is preceded by a rise it is usually followed by another rise, and a fall is followed by a further fall.

'Triangles' are pretty self-explanatory. The share price oscillates through a steadily smaller range. When it finally breaks out of the pattern, the direction is said to be an indicator of the way it will move for a time.

If a share has been wobbling along for a long time between two constant limits, it is said to be in a 'channel' and once again, breaking out of it is normally an indication of the new direction the price is now likely to take.

When a short moving average, such as a rolling average of 20 days crosses a longer moving average of, say, 50 days upwards, it is called a 'golden cross'. It promises a big price rise and is an even stronger indication if the two moving averages have been moving in parallel, as it indicates a reappraisal by the market. If the line crosses downwards it is called a 'dead cross' and presages a gloomy outlook.

A wealth of other patterns can be detected by the practised and imaginative chartist and they all provide some signal about the future direction of prices.

Bar charts

Bar charts have vertical lines with the top indicating the highest price traded at during the day, and the bottom representing the lowest price; see Figures 10.2 and 10.3. The closing price is shown by a short horizontal ledge on the right, and the opening price on the left. If the left opening price is lower than the close, the vertical bar is black (sometimes blue). A red bar signals the stock has gone down.

FIGURE 10.2 Bar chart

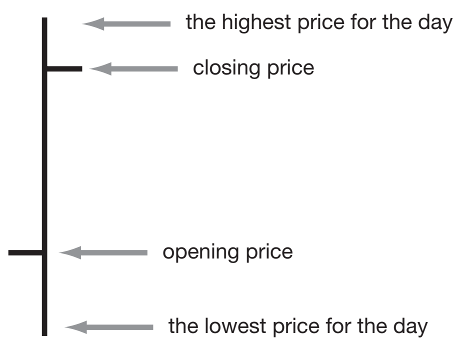
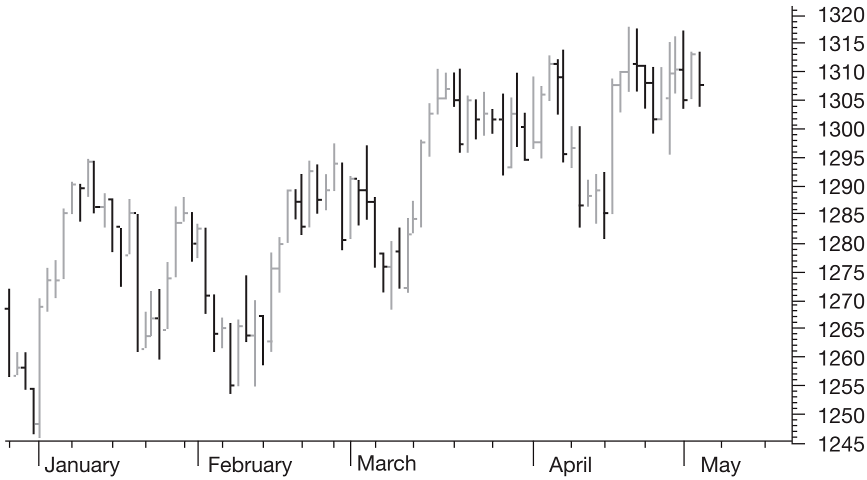


FIGURE 10.3 Bar chart



Point and figure

Point and figure charts, as shown in Figures 10.4 to 10.6, select an appropriate amount of price change that is worth recording, say 5p.

If the share rises by that, the chart shows an x; another rise of that amount and another x is stacked above the first and so on until the price changes direction. Then the chartist moves to the next column and one square down from the line of crosses puts an o. If it drops another 5p there will be another o beneath that and so on. A reversal starts a new line one square up with an x. The chart ignores time, though chartists usually put the number of the month of a new stack at the top and bottom – 1 for January, 2 for February, etc – and usually start a new year with a new stack.

Candlesticks

Another type of chart that has gained interest in recent years is the ‘candlestick’ (previously known as the more straightforward ‘bar chart’). It is much older than Dow’s theories, having been used by Japanese rice traders for centuries, but works on the same assumptions: price changes move in patterns that recur and hence are predictable. Despite a small but devoted following among some professionals, including currency traders, this is widely ignored by people discussing investment.

FIGURE 10.4 Point and figure chart

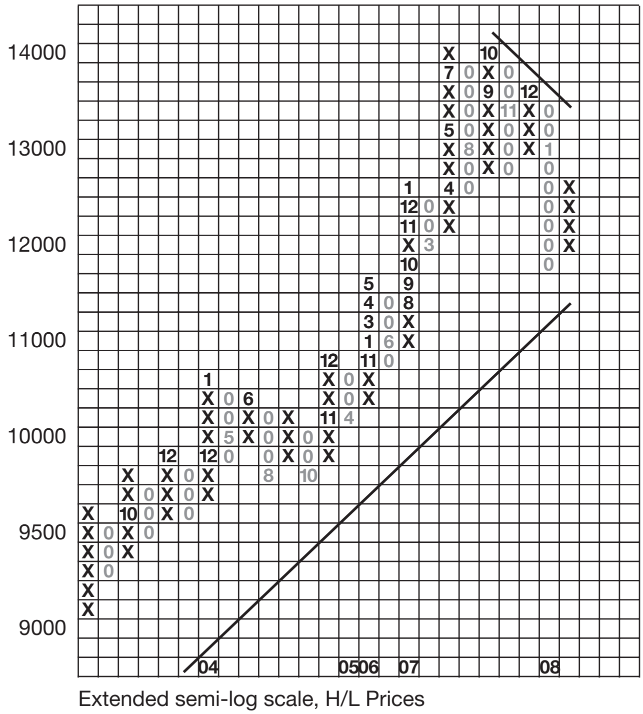


FIGURE 10.5 Point and figure chart

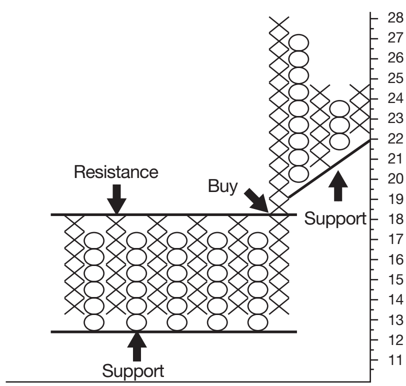


FIGURE 10.6 Point and figure chart

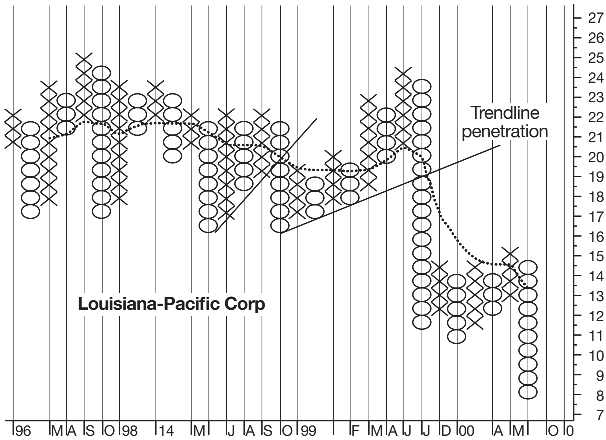
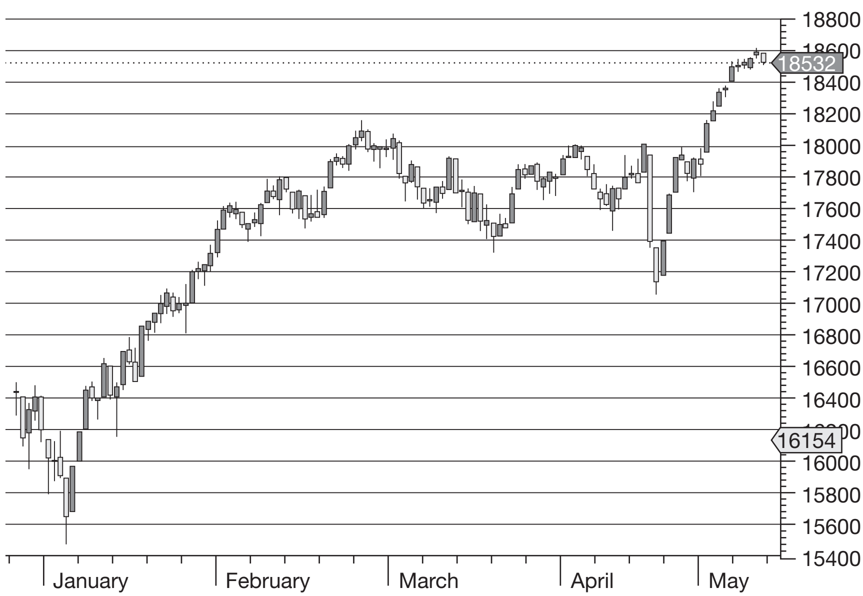


FIGURE 10.7 Candlestick chart



The chart shows for each day the opening and closing prices, as well as the highest and lowest prices reached during the day (see Figures 10.7 to 10.9). Just as the Occidental charts have names for regular or significant patterns, so does this, but with an Oriental twist. There are things called ‘three black crows’ and ‘three advancing soldiers’, ‘shooting stars’, ‘morning stars’ and ‘evening stars’, ‘hanging man’, ‘hammers’, and so on.

FIGURE 10.8 Candlestick chart

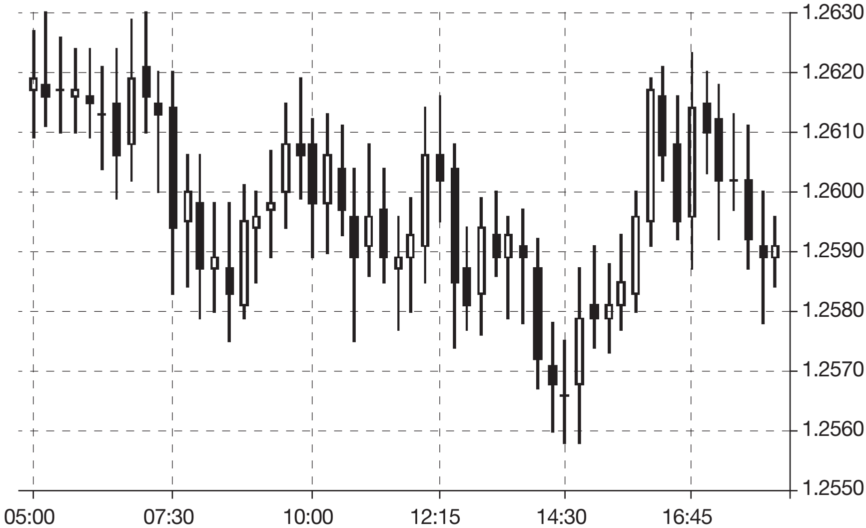
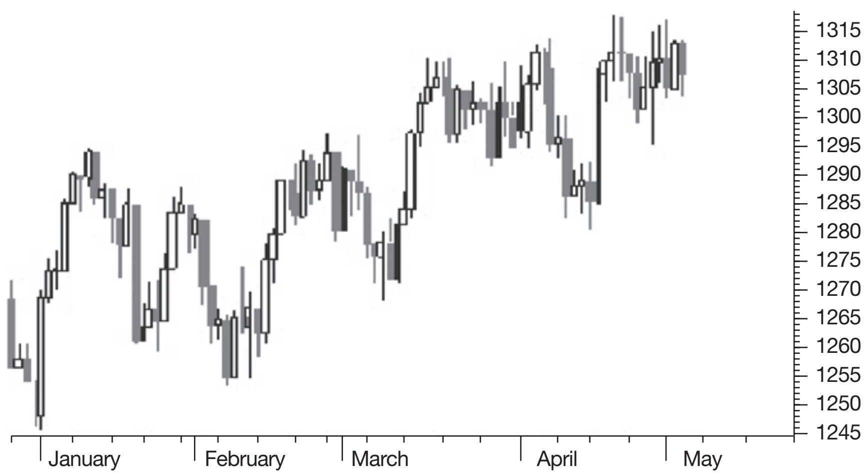


FIGURE 10.9 Candlestick chart



These charts show how trading went. So, for instance, if there is a lot of wick above the candle there must have been a rally during the day that failed to hold and will have discouraged traders. Conversely a length of wick dangling out of the bottom (called the 'hammer') shows that an abundance of sellers threatened to push the market down but there were more than enough buyers to offset them, so the market bounced off the bottom, which gives promise of further rises.

The wick of each candle runs from the low to the high that was reached. The wider body of the candle is between the opening and closing prices – if the closing price is lower than the opening the candle is black; if higher it is white (the original Japanese version used red for these).

Technical tools

None of these charts needs be used on its own. A wealth of additional information on the chart will add a level of perspective or even explanation. For instance, adding the movement of an index – whether the FTSE100, the All Share or the sector of that company – can show whether it is moving with the market. If it is not, that may prompt further research. It is also possible to see the rate of change of a price over the selected time span.

Transforming the chart line to a moving average can smooth out the daily fluctuations. Making it a weighted average gives greater weight to more recent price movements, and making it an exponential weighting adds greater sophistication. That sort of tool helps spot a trend or a change in one.

If you can find a website that also provides annotations to the charts, that would give yet another insight into what is happening and why. The most usual type of notes include dealings in the company's shares by its own directors, and newspaper or stockbroker comments on the company.

The relative strength index measures the level of a share price relative to itself and its recent history. It is calculated as the average of prices for days when the price rose, divided by the average of the prices for days when the price fell. The index ranges between 0 and 100.

Momentum

Recent price changes show the sentiment of the market, so the assumption – justified by some research – is that whatever caused them to move in one direction will continue to do so for at least a little longer. It is not invariably a sound investment policy, not just because the market is notoriously fickle, but because it requires continuously active trading at a level where any profits may be undermined by costs and tax.

For those interested in the suggestion, a stochastic oscillator can be used that shows the location of the latest closing price relative to the high/low price range over a set number of periods. It is made up of two lines that oscillate between a vertical scale of 0 to 100: one is the main line and the other is its moving average. Fast stochastic is the average of the last three values, and slow stochastic has a specified period.

Sentiment indicators

Technical analysis is not just about charts. There are hosts of other indicators providing additional or alternative pointers to market movements and hence tips on when to trade. Some of them work on indications of general sentiment in the market. One of the difficulties with any of these guides, of course, is that as soon as they become generally known they fail to provide reliable signals.

An example is the 'small-lot indicator' (small trades in shares) as a useful counter-indicator in the United States. This works on the assumption that small investors are almost invariably wrong. They buy at the top and sell at the bottom, so they provide a good counter-indicator. This has been gradually extended as it became clear it was not just the amateurs who got carried away by the prevailing or fashionable economic view: it became slightly transformed to the feeling that a universally bearish attitude in the country as a whole is a sign of an upturn and rampant bullishness is a sign to sell. Some companies even tabulate the number of investment advisers that are bullish or bearish as a sign to go the other way when unanimity seems imminent. In other words, when the small buyers start piling in it is time to sell, and vice versa. Word got around and so many people started acting on the theory that it became a self-defeating prophecy and confusion seems to have buried it.

The flow of funds indicators show demand for securities and where people are heading to put their cash. Sometimes the intensity of feeling about a company can be gauged by the volume of shares traded, especially if a chart can show whether the total is up, down or unchanged. The combination of price and volume movements gives a pretty good indication of overall attitudes:

- if prices and the amounts of shares traded are both rising it is an indication that the market for the share is set to rise;

- a rising price but a declining volume of shares traded is a worrying trend indicating the price rise is running out of steam, and as the upward movement slows to a halt the direction is likely to reverse and the price will soon start to fall;
- a falling price coupled with rising volume shows investors heading for the exit in growing numbers, which can only reinforce and accelerate the falling price;
- the price and volume of shares traded both falling shows investors beginning to have second thoughts about selling and the downward pressure is therefore easing; soon it will bottom out and start upwards.

Other indicators

There are many other systems attempting to predict market movements. Like any other activity in areas dominated by luck and the unpredictable, like fishing and acting for instance, there is quite a lot of superstition involved. People are ready to grasp at any apparent correlation, no matter how dubious.

So there is one theory that sunny weather produces optimism in people generally that is reflected in prices, and another view has it that the market index moves up and down with skirt hemlines. Another old adage was 'sell in May and go away until St Leger's Day' on the assumption that everybody went away for the summer and returned for the popular horse race that marked the end of the summer lull – hence in the absence of trade, activity was listless and random. In fact any investigation shows the saying to have been unjustified when coined and becoming less reliable since.

Finally, be wary of buying on a tip or rumour. It is most unlikely you will be the first to hear it, even if it is true, and there is a very good chance it is unjustified gossip or a 'ramp' – somebody starting a story to shove up the price of shares he or she wants to sell. On the other hand, if it really is true and the information comes from someone on the inside, acting on it could land you in jail for insider trading.

One view holds that share selection is for the long term, so there is little point in reacting to every whim of stock market fashion. You bought for the long term, so hold on to the shares – an apparently sensible approach that can provide a useful overall guide but ignores the realities of life. For instance, the assumption that dictated the original decision may no longer apply – the company, the economy or the portfolio may have changed. So it is worth reviewing the decision from time to time.

Some of the guides to investment will say fatuous things like 'sell your worst shares early'. But if it were easy to tell which the worst shares were, one would not be reading a book – just because a share has dropped and another risen does not mean they will continue in the same direction, as lots of price charts will clearly show. Some old market hands are always against buying a plunging share in the hope of recovery – 'the market is trying to tell you something' they say. But if, for instance, a share goes from 23p to £12.40 in the space of 18 months and then drops back to 60p in the next six months, when did the market get it right?

So there are no obvious answers. Anybody claiming to have a simple explanation is a fool or a liar. If it were that easy everybody would have done it long ago.

There are sophisticated mathematical modelling theories about what you should do. They are interesting, some have been programmed into computers, but none of them can be justified on any logical basis. One suggests selling shares after they have fallen 8 per cent; another says sell when they have dropped 7 per cent below the top price reached.

Selling

It is never wrong to take a profit is one of the ancient rules of stock market investment. Yes, the share price may go on zooming up still further, but your profit is safe. One alternative when winning is to hedge your bets by selling part of the holding to recover the original investment plus a bit of profit, and let the rest ride just in case there is further growth left. Another of the hallowed sayings of the market comes to much the same thing: 'Leave some profit for the other chap.' This is deeply reassuring stuff, and it eases the irritation of selling when the share continues to rise – but just consider the odds against being able to buy at the bottom and sell at the top.

By some curious chance most of the advice from professionals is about how to secure your profit. The assumption is that nobody ever buys a dud. There is less helpful advice about when to join the other sleek rats heading for the shore.

In falling markets private shareholders fall into two opposing camps. There is the one Naipaul described, who hangs on to the most obvious rubbish in the hope it will eventually recover. Then there is the sort who panic at any serious drop and bail out in the expectation that once the price is heading downwards, the law of gravity will continue to operate. Both are probably wrong.

The point about private investment is that it is generally for the longish term, so the buyer should have done some pretty careful research on the business before buying its shares. The corollary is that if it continues to meet those criteria (good management, reasonable margins, innovation, good financial control, etc), then it may well be a good idea to hang on and just go on collecting dividends. On the other hand, that also means the investor must continue with the work, to see if the company is still up to snuff and therefore worth backing. If not, sell.

So much for cashing in profits or preventing further haemorrhage for a failure; that assumes the market as a whole is still healthy. The problem is spotting when the market is sick and likely to get worse, and knowing whether it is a blip or the market on the turn.

For instance, there is the time when a roaring bull market suddenly falters. This could be the result of some external trigger like a trade war or an apparently unconnected event – why the hurricane that roared across southern England in October 1987 should have triggered a plunge in prices still leaves market analysts baffled. Another cause can be a general loss of impetus. In some curious and indefinable way the enthusiasm that had buoyed up everybody and had seemed ready to continue for ever suddenly drains away. Nothing seems really satisfying. Even good news fails to lift prices, though unhappy news knocks them back. These are signals of a market on the turn and indicate that it is time to start selling before the rout starts.

Once the bear market is truly under way, selling on the way down is trickier. Professional investors are ruthless about getting out if the signs look bad, and many institutions now have computer programs that automatically start selling when a certain percentage decline has been noted. This is one of the reasons the New York stock exchanges can sometimes register accelerating falls in a share or even the market as a whole, as computers are automatically triggered to save what can be salvaged. Private shareholders, however, are always slow to sell. It is reckoned to be a mixture of ignorance (they have not been following the share's performance), sentimental attachment to a carefully chosen share, and a sort of inertia that suggests hanging on for just another day or so in case it bounces back.

The judgement is between cutting your losses and not missing out on a recovery. There are some warning signals that may suggest a discreet exit; for instance, there could be conflicting indicators and rumours about the company whose shares you hold. Another good test is to ask yourself whether the shares have become so low and the indications of good profits so convincing that the shares seem an irresistible bargain – if not, it is probably a good idea to sell. Even if you are convinced the market has got it wrong and the business will bounce back, it can be shrewd to sell. Then, if the price continues to fall and the indications are coming through that the company has turned the corner, you can always get back in.