CLUB

9 questions to ask if you're taking profits in a stock but think you might want to re-buy lower

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In this article

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Here's our Club Mailbag email investingclubmailbag@cnbc.com — so you send your questions directly to Jim Cramer and his team of analysts. We can't offer personal investing advice. We will only consider more general questions about the investment process or stocks in the portfolio or related industries.

running towards slaughter! Once you've decided to raise cash, are there principles for the exit and re-entry that I should employ — Thanks, EF

While we can't provide individual investing advice, we can talk about some of the key considerations that help inform our decisions on taking profits and leaving room for future purchases.

Taking profits

1. Why are you selling in the first place?

The answer may be that the stock has run too far, too fast. In this scenario, it can be very tempting to let some go – and if you're feeling piggish, you should probably do so.

2. You must also think: Why is the move taking place?

Is stock up on no news? That could be more of a reason to sell. Or did the company just blow away the quarter and guide? That case might argue to hold on. A move on multiple expansion is unsustainable. But a move on higher-than-expected earnings is sustainable because the stock isn't getting more expensive from a valuation perspective. That's been the story with Nvidia over the past year.

We kicked of 2024 trimming several big 2023 winners because we had been feeling greedy. Some of those trims proved prudent as the stocks subsequently pulled back while others kept running. However, we can't let "woulda, shoulda, coulda" thinking and fear of missing the next leg higher cause us to lose our discipline. As noted at the time of the sale, discipline trumps conviction because as Jim Cramer always says bulls make money, bears make money, and hogs get slaughtered. We were feeling greedy during this historic stretch and refused to be hogs after the great year these stocks have had.

3. Are you selling because of valuation?

That's certainly fair. But if we've seen anything in this market, it's that stocks can and will run past their historical valuation norms. Sometimes that's because of momentum, and other times it's an indication that the earnings-per-share (EPS) estimate needs to be revised higher, as has been the case with Nvidia crushing estimates quarter after quarter. So, be sure to consider growth rates, and don't be afraid to sell down a bit if your plan has been to ride momentum until the momentum stalls out. Just understand that it's a momentum move and not a fundamental one.

4. Are you selling because the position got too large?

Example

We recently did this with Wells Fargo, which grew to become the Club's largest position following a rally on news that the Office of the Comptroller of the Currency terminated a 2016 consent order. It was also a reason we trimmed Apple at the start of the year.

5. Are you selling due to a change in the industry?

Issues facing industries — ranging from regulatory to increased competition to lower demand to supply chain dynamics — could be thesis-changing and require a harder look as you must reassess if the investment is still viable.

Example

We took a small loss when exiting Oracle when quarterly results indicated that our investment thesis was not panning out at the pace we were looking for. We also exited Emerson due to concerns about execution and mergers and acquisitions integration.

When to buy the dip

1. Why is the stock down?

Is it a broad rotation out of the sector? In this case, it may be more enticing since the decline isn't on company-specific news. Rotations happen all the time in the stock market and it's not always for a terrible reason.

Example

That's why we made a small contrarian buy of Coterra Energy shares in late 2023 as U.S. oil prices were heading lower and taking the energy complex down with it.

2. Was there a material update such as poor earnings or a competitor gaining market share?

In this case, a harder look needs to be taken as loss of market share or lower demand could be the result of competition and maybe the company isn't as good as it once was.

Following DuPont's tough earnings preannouncement, we said we would not be buying the dip until we learned more. Ultimately, we did buy more after hearing what management had to say a few weeks later on the earnings conference call, and the stock stabilized. But the lesson here is we couldn't step in and buy the dip because the preannouncement made it clear that things in China were even worse than we thought. The update turned out not to be a thesis changer. But it did cloud the outlook and timing of a recovery a bit.

3. If you had no position already, would you be interested?

We don't care about where a stock is coming from, only where it is going. So, the number one question is whether or not you think the stock is set to go higher.

Example

We recently picked up shares in three different names, essentially acknowledging why they were all down and noting that things appeared ready to improve going forward. Put another way, the decline in the stock didn't quite match up against our outlook on the businesses. We felt the stock prices reflected the past. But as investors, it's the future we care about.

when re-buying stock back that you sold higher. In this case, as long as you've sucked out some money, you can't be too mad even if you don't nail the exact bottom. By the way, when we say "sucked out" money, we mean the money you've made after building the position back to its original share counts. For example, if we own 100 shares of XYZ at $100 each and sell 10 shares, we've raised $1,000 cash. If we then repurchase the 10 shares at $90 each, we've put back $900 and built back up to 100 shares. So, we've "sucked out" $100 cash – I now have $100 cash and 100 shares though the shares have, of course, lost value for the time being.

Example

You'll notice that when we rebought shares of DuPont, we called out that we were rebuying shares previously sold higher due to increased confidence in the outlook following the earnings release. It was that higher sale, along with our basis, that provided us the option to step in and make the buy.

(See here for a full list of the stocks INJim Cramer's Charitable Trust.)

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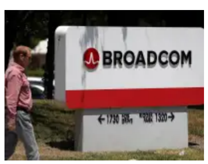

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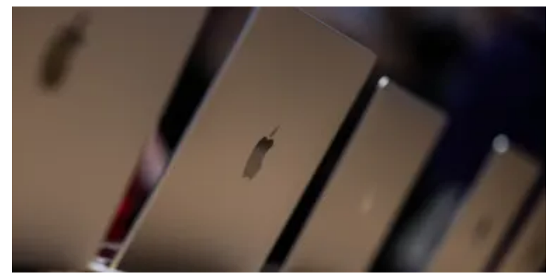

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