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The Art and Science of Selling

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards provides six scenarios where he would be a seller.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: ***http://www.valuetrend.ca/art-science-selling/***

You can also visit the **VALUETREND** website at the link below:
http://www.valuetrend.ca/

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Wednesday, January 17, 2018

The Art and Science of Selling

By: Keith Richards (bio at end)

This blog is taken from my regular client newsletter. If you subscribe to our newsletter, it will be a familiar looking blog because I have duplicated much of the content here. I normally don't do this, but I thought the topic worthy of ensuring the maximum number of readers get the message.

The hardest question I am asked on BNN and the ValueTrend blog is "how do you know when to sell?". The answer is hard to give because of the many different circumstances that might merit selling a position. Stocks tend to move much quicker when they begin to fall than when they are in an uptrend. The Wall Street adage *"Stocks take the stairs up, and the elevator down"* illustrates this tendency to decline at a faster pace than they ascend.

Here is how ValueTrend utilizes a sell discipline to limit risk. Below, I use specific examples that were triggered in the ValueTrend Equity Model to illustrate six scenarios.

Situation #1: Selling When The Trend Changes.

The ideal scenario to sell a stock is when one can identify the end of a trend. I wrote an Investors Digest article on the methodology behind identifying a potential decline **here.**

There are often signs that a trend has changed from "up" to "down" on a stock, sector, or even the broader market. As a stock or sector moves from a series of higher highs and higher lows, we will sell that position. As the article above mentions, we look for a few confirmations of this trend-change before acting – lest we experience a "whipsaw" and watch the stock rally right back up again. Good recent examples of selling into a trend-reversal are our exits from General Electric, Johnson Controls, and AltaGas in the past. (BW: Keith, where did you sell GE???)

Situation #2: Reducing Exposure To An Overbought Market Despite A Rising Trend.

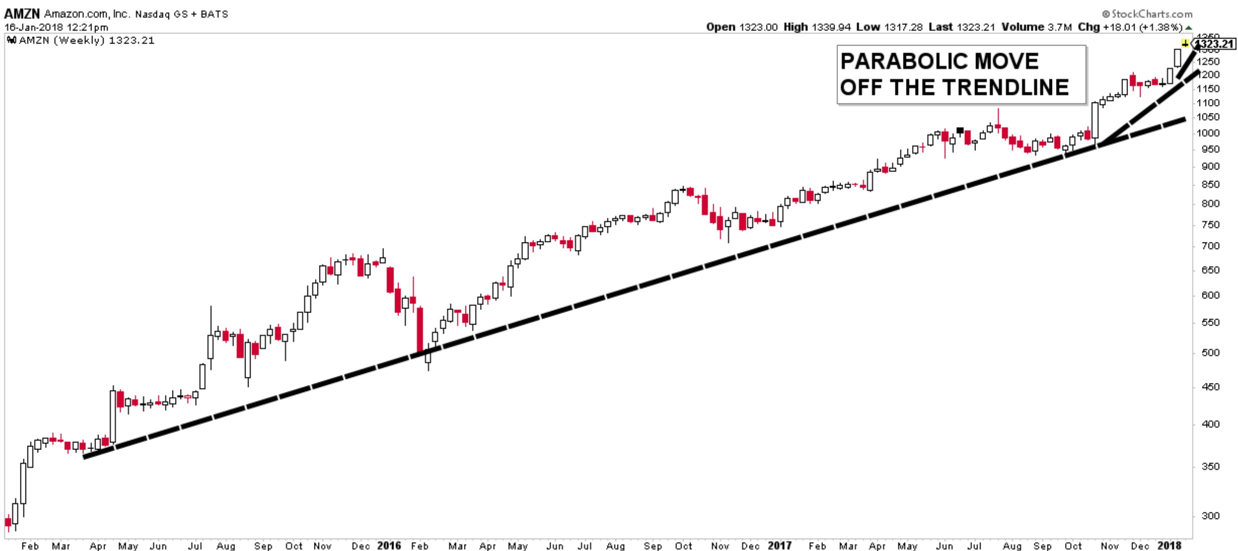
Sometimes the market, or individual stocks, become overbought. Despite their uptrends, they illustrate a parabolic (rapidly rising) price pattern that suggests a significant potential for a rapid decline.

This summer, the extreme advances of the FANG & technology stocks inspired us to reduce our exposure to the sector from three stocks to one stock (Microsoft).

In hindsight, the two stocks we sold (AMZN and GOOGL) went higher after we sold. Despite that move, it was the prudent thing to do. Historically, investors have lost more money by sharp reversals in technology and biotechnology stocks than in any other sectors. Think of the 2001 tech bubble. Stocks like Nortel, or even high-quality stocks like Intel or Motorola, rapidly imploded. Think of the implosion by Valeant Pharmaceuticals and the entire biotech index in 2015.

We felt our exposure was too high to this risky group of stocks that was (and is) aggressively overbought.

See Amazon stock on the next page.



Situation #3: Selling To Reduce Exposure

The ValueTrend system dictates a price position between 2% to 7% per stock, and a maximum position of 10% in an index or sector ETF. It is rare to see us hold 7% of the model in one stock. In fact, we typically peel back (sell) some of a stock if it has risen enough to reach 7%.

MasterCard is a recent example of a stock that started at a 5% weighting. It out-performed in such a rapid manner that it began to approach our 7% ceiling. We sold enough to bring the stock back to 5%.

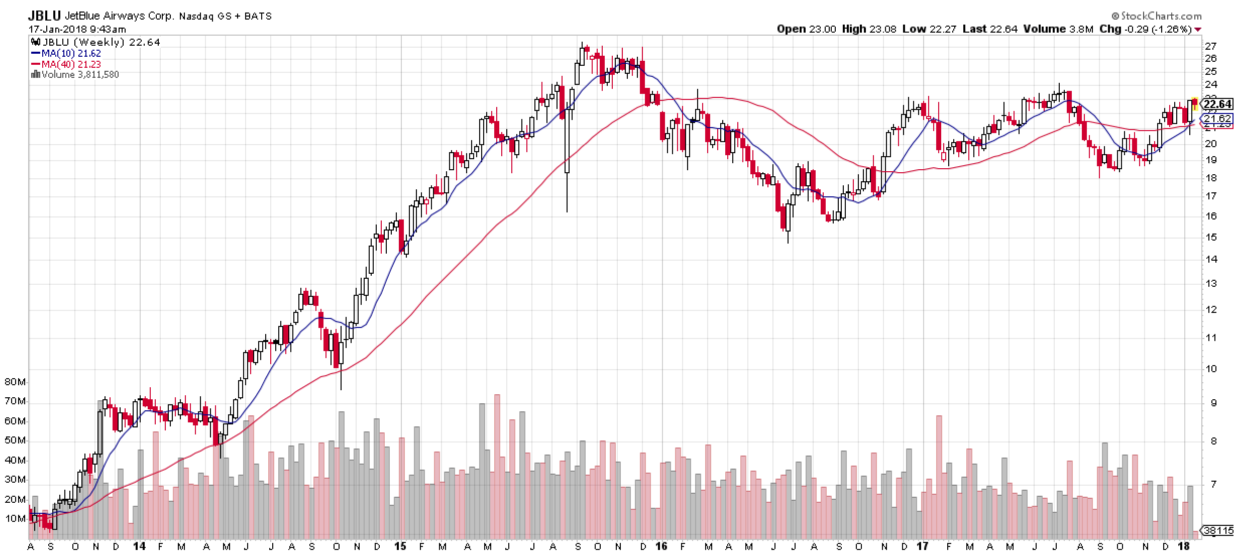
Another example of selling to reduce exposure was our decision to sell about half of our U.S. stock holdings in the spring of 2017. While our remaining U.S. stocks were negatively affected by the rise of the loonie, our exposure to this currency draw-down was reduced.

Situation #4: Greener Grass

There may be nothing wrong with a stock. We may simply foresee less upside going forward than we have experienced up until now. Sometimes we will continue to hold a high dividend stock in the Income Model but sell it in the Equity Model. We would rather put the capital to work in higher growth stocks within the Equity Model, or hold the cash if markets appear risky.

Good examples of sold stocks that looked less growth orientated than the Equity Model demands include past sells of CP Rail and JetBlue (see chart next page). These are good companies that we made a bit of money on - and we would indeed re-enter the positions within the Equity Model should their growth outlook improve.

(BW: It would have been interesting and informative if Keith had told us, and shown on the accompanying chart, at what price point he sold his Jet Blue position.)



Situation #5: Cyclical Or Trading Range Patterns

Sometimes we buy stocks or sector ETFs that trade in a range. For example, BCE has recently been moving between $57 and $62, and we have traded it twice within that range. Mondelez (chart below) is a stock that seems to be stuck between $40 and $46. We own it now, and look to sell it as it reaches $46.

Sometimes, seasonal tendencies tend to dictate that certain sectors do better at one point of the year than others. For example, consumer staples tend to be stronger over the summer months. Consumer discretionary stocks tend to be stronger during the winter.

While this rotation in strength is not always the case, it happens often enough to inspire us to seasonally trade the respective sector ETFs that represent those sectors. Same goes with energy stocks, which tend to have their greatest strength from early in the New Year until the spring.

Situation #6: Yikes Away!

There are times when a company will issue a surprise financial report or negative news of some sort. Traders react quickly and aggressively to dump the stock which, in turn, causes a landslide stock price movement.

A recent example of this is Cineplex (chart below), a stock where we had initiated a smaller 3% position in the Equity Model. The company announced lower-than-expected earnings and guidance in the late summer, and traders punished the stock by marking the share price down by 20% within a few days, breaking well below technical support. After such a sell-off, one has to decide whether the market has over-reacted and an over-sold rebound is likely – or if it is best just to sell with the crowd. In such situations, there are no hard and fast rules. In Cineplex's case, we held out with the expectation that the winter's movie line-up (including the new Star Wars, and others) might rally the stock. This has not taken place in the manner we anticipated. The company continues to be a well-run business; however, the stock is trading with significant skepticism surrounding future box office revenue. We are selling. (BW: Keith, did you make a profit?)

Next Blog: Ask Me Anything.

I ran a couple of blogs in the summer where readers could post a question – and I would select those questions that looked suitable for a blog topic. Here are the links to the last two "Ask me anything" blogs:
http://www.valuetrend.ca/ask-me-anything/
http://www.valuetrend.ca/ask-anything-answers/

I am opening the floor to post new questions for an upcoming "Ask me anything" blog. Please post your questions in the Comments section below, and I will do my best to address them in a new blog.

BW: You will have to go to the end of Keith's blog to be able to access the "Comments" section:
Click here: http://www.valuetrend.ca/art-science-selling/

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See **About The Author** below.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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