# How Do You Know When It's Time to Sell?

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Most investors have a process for purchasing an investment. It usually involves performing research, comparing similar investments or investment types, and considering a number of more personal factors, including time horizon, risk tolerance, and goals.

Few investors, however, have a tried-and-true process for selling an investment. Yet knowing when to sell can be every bit as important as knowing what to buy. Here are some guidelines that can help you decide whether it is time to let an investment go.

- **You're concerned with performance.** If you are thinking of selling a holding simply due to a recent drop in price, take a deep breath and reconsider. Ask yourself these questions: Is my investment truly performing badly, or is it a consequence of larger economic and market conditions? How has the investment performed relative to similar investments over the last 1-, 3-, and 5-year periods? Have there been changes in management or ownership that have directly impacted its performance? If your investment has been a perennial underperformer, it may be time to move on. But it's never advisable to sell solely on impulse. Extreme market swings can make even the most seasoned investors nervous. Think of your long-term goals and remember that trying to time the market can often bring disastrous results.
- **You experience changes in your overall risk tolerance, time horizon, or goals.** An investment that made perfect sense for you while you were in your 30s and 40s may no longer be as suitable as you get older. If you are no longer comfortable with an investment's degree of volatility -- particularly as you near retirement age -- it may be time to sell.
- **You need to rebalance or diversify.**[1] Financial experts recommend rebalancing your portfolio at least annually. To do so means selling a portion of some of your winners to reallocate among investments that may not have performed as strongly. The goal here is to make sure that your portfolio is properly diversified. Being too heavily invested in one security or one type of asset class can expose you to a higher-than-intended level of risk.

- **You made a bad decision.** It can be tough to buck the "herd mentality." If you bought an investment because it was the hot ticket at the time and now realize that it's not suitable for you, it's probably best to let it go.
- **You find a better and/or cheaper alternative.** Sometimes it may be practical to move from one investment to another. For example, you may be happy with your mutual fund's performance, but not its fees. If you can find a similar investment with a similar track record that minimizes the costs to you, it may be wise to switch.
- **You need the cash.** Sometimes you have to part with an investment even though you'd rather not do so. But should you sell an investment that's currently experiencing a run-up, or one that's been battered? It may be worthwhile to consult with your tax professional. Selling an investment that has lost value can pay dividends at tax time by allowing you to use the deduction to offset other gains.

**Source/Disclaimer**

[1]Asset allocation and diversification do not ensure a profit or protect against a loss in a declining market.

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