Twitter Thread by Aditya Shah



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A very pertinent question investors ask:-

"When to sell a stock?"

A small thread■which can help u in this process

Hit "Retweet" to educate maximum investors

Lets go■

(1/20)

First things first:-

There is no set methodology to decide when to sell a stock.

Everybody has their own framework.

These are just some pointers that work for us.

One should create their own framework

(2/20)

Many investors have an anchorship bias.

They never sell in loss even if the fundamentals are deteriorating.

Numerous examples like Yes Bank,DHFL,Vodafone Idea can be seen where retail investors are now stuck.

Don't shy away from admitting mistakes and taking losses

(3/20)

So when to sell a stock?

1. Framework for investment not working out:-

Fundamentals of the company deteriorate:-

When we invest in a company....we create a broad vision of how the targets the company will achieve in the next 3-5 years.

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Each quarter we just make sure that the company is slowly moving toward the guided path.

There can be delays due to business realities.

If the company completely digresses from the required path!

Eg:-

Since 2018,Sterlite tech saw a sharp deterioration in fundamentals

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The Classic Case of deterioration in fundamentals has been Vodafone Idea:-

The company has been consistently losing subscribers which is making the company fundamentally weak.

(6/20)



Active Subscribers Loss Trend	
Month	**Numbers (In Lakhs)**
Jun-20	36
Jul-20	38
Aug-20	45
Sep-20	35
Oct-20	13

Source: TRAI

2. Management woes:-

Sometimes the top management leaves the company

For eg:-

Strides and Solara have seen a complete rejig in the top management

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The management enters a new business that is not exactly value accretive to the company.

For eg:-

Balaji amines entered the LED business or the Hotel business

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Many times management refuses to share the details about the business transparently

For eg:-

Sterlite technologies refused to share details of the fibre optic price fall...which led to investors not understanding the fall in share price.

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Overpromise and Underdeliver:-

Many times the management gives out aggressive growth plans only to give some reason or the other to not meet the targets

Eg:-

Varroc engineering gave aggressive growth targets in 2018.

Only to never meet those targets till 2022

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3. Wrong entry in a cyclical sector

If u enter a cyclical sector at peak sentiment..u may get stuck at the wrong price.

For eg :-

2017 was the auto sector peak,Maruti touched Rs.10,000.

From then on a severe down cycle followed and the stock never breached that price

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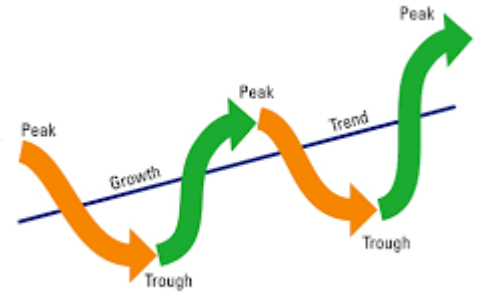

Getting stuck in cyclical sectors at the wrong price can be extremely brutal

Tata Steel had a high of Rs 849 in 2008.
The stock breached this high only in 2018.

10 long years of extreme pain.

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4. Overvaluation:-

We have seen many overvalued stocks like Kotak, Vinati, Astral, Divis, etc go on and create huge wealth for investors!

What is overvalued may remain overvalued for 10-15 years and create great returns!

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So what to do when a stock is overvalued?

You must identify the sector in which the company operates in

1. Cyclical or
2. Secular compounders

On cyclical sectors, u should exit as soon as everybody wants to buy them.

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On long-term compounders rather than think about selling the stock, one should think about averaging upwards!

Long-term compounders will continue to surprise.

The latest example is the spectacular rise of Tata Elxsi

10x bagger in the last 3 years

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5. Fraud/Regulatory Action/Auditor Resignation

As soon as u discover a fraud or an auditor resignation one must not think twice and sell the stock

Numerous examples of this have been seen

PNB with Mehul choksi scam
Manpasand beverages with auditor resignation

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6. Spot better opportunities:-

If you spot a better company with better business/capital allocation and overall better return generating opportunities.

Even if u need to sell the existing stock in a loss....one must not shy away!

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What if u need money?

Never interrupt equity compounding for the want of money

Please create

1. Insurance
2. Emergency corpus
3. Asset allocation

So that u can first touch other assets before u touch equities

Needing money should be the last reason to sell ur stocks

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Conclusion:-

1. Selling is not easy and the entire process is a piece of art.
2. No clear rules govern the process of selling.
3. If u get a buy good price on steady compounders....try to average them up

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4. Sell Cyclicals as soon as every retail investor wants to buy them
5. Business fundamentals deterioration will provide clues to sell
6. Concentrate secularly on management performance.

Dont marry a stock....be ready to sell as soon as there are signals!

Cheers!■

(20/20)