Twitter Thread by Lalit



Lalit
@lalitinvestor

Everyone speaks about when to buy a stock. Hardly anyone speaks on when to "Sell".

Thread on when to sell a stock■

1) Repeated Corporate Governance issues - Exit a stock if there is news of repeated CG issues popping up every now and then. It takes a mountain to change a bad management. Better opportunities always exists.

2) If the financial performance of the company is declining - keep a watch on this over quarters to see if the performance in profits and sales is consistently going down. Attend AGM, Concalls to understand the reasons for same.

3) If the working capital days is increasing - keep a check on receivables days. A higher receivables days QoQ over a period, shows that working capital cycle is strained.

4) If borrowings increase - Check on if the borrowings have gone up due to capex or as a working capital effect. If for capex, check if company has ability to repay the same in a down cycle. Too much of leverage usually kills a business.

5) Key employees leaving the company in short interval of time - Often KMP like CFO, Compliance offer, VP, Director leave the company when they see something fishy in operations or when mgmt does not give heed to repeated red flag/warning.

6) When 5 yr Cash flow to operations(CFO)/EBITDA is less than 40% - There is no benchmark % for this but in my experience if the mgmt is not able to convert the profits into cash over a 5 yr period, it is better to exit the company.

7) When dividends are paid from borrowings - There are companies who often pay dividends from borrowings just to show they are shareholder friendly. Such companies usually bleed internally in their operations and over a point go bankrupt.

8) If Altman Z Score ratio (not applicable for financial companies) is <1.8 (in actual have it below 1.6). It uses profitability, leverage, liquidity, solvency and activity to predict whether a company has a high probability of becoming insolvent. Combine this with other factors

9) When the stock price reaches a point which no longer reflects the underlying business - This can be tricky as many a time stock price reflects sentiments of a proposed capex or potential opportunities for M&A/demerger been considered. Hence have sufficient Margin of Safety.

10) Hype & Hope story - Too much media attention can often lead to a hype created in guise of hope for a business turnaround which often leads to collapse once the frenzy fizzles out. Stay away or book profits from such moves.

11) When you feel like converting your trading position to investment position - Again having seen many (including myself at some point) convert trading position to investment, it has always lead to sunk investment. A trading stock hardly creates wealth in my experience.

12) Unrelated diversification by company - Example of Satyam is well known. Similarly when Avanti feeds acquired football team Blackburn rovers. Same with VRL logistics promoter announcing foray into airlines. Such unrelated diversification shows poor capital allocation.

13) When the investment gives you sleepless nights - Exit the investment at first go, if such investment keeps you awake all night.! If you have invested on a basis of thesis, stick on to such investment as long as rationale is playing out.

14) The company market share is falling - This might be due to competitor's entry into product lines or quality of product deteriorating. If the mgmt is not able to pull up its socks quickly, it might lose out a significant market share in no time with cascading effects.

15) When the company doesn't utilise the funds it was supposed to as per IPO - This applies usually for new IPO companies in first few yrs of Ops. If funds are utilised otherwise than for purpose it was raised for, Exit.! First signs of funds taken out of company by promoters.

Often investors sell stocks on basis of PE or on back of stock up in quick time. Many investors miss the journey of holding on to stocks for long time due to these factors. A company with high PE can continue to remain high for quite a long period of time without any correction.

At times, many of the above factors have to be combined to take a overall view. Likewise, better opportunities do come up as well for switch of stocks/industry bets. PF allocation as well matters along with diversification. Stick to your style of investing.

Selling stock is as important as buying one. Be invested as long as your rationale for investment and thesis is in place. Develop the urge of not selling stock when price is down but business continues to grow. Sooner or later, you will be REWARDED for your perseverance.!