

# investmentSDirect

## Selling A Losing Position

Your equity and Mutual fund investments might have just seemed to look a little better post the elections.

Many a investor have started to actively revisit their portfolio.

And there are times, when some scrip/scheme in your portfolio looks very bleak even now. You want to sell, but you can't bear to think of selling now. And selling at a loss is often emotionally a very tough decision.

Let's take a look at why a selling decision is important:

### The Breakeven Fallacy

Many didn't even react until the value of their portfolio holdings had declined by as much as 50-60% in the recent market contraction.

There is absolutely no guarantee that a stock will ever come back. In fact, waiting to break even - the point at which profit equals losses - can seriously erode your returns.

To demonstrate the importance of cutting losses, the chart below shows the amount a portfolio or security must rise after a drop just to get back to even.

Percentage Loss	Percent Rise To Breakeven
10%	11%
15%	18%
20%	25%
25%	33%
30%	43%
35%	54%
40%	67%
45%	82%
50%	100%

### A stock that declines 50% must increase 100% to break even!

Many investors forget about simple mathematics and take in losses that are greater than they realise.

They falsely believe that if a stock drops 20%, it will simply have to rise by that same percentage to break even.

This isn't to say that rebounds never happen. Sometimes a stock has been unfairly pummeled.

But the long turnaround waiting period (usually about three years) also means the stock is tying up money that could be put to work in a different stock with much better potential.

Always think in terms of future potential of the unlocked value in the underperforming investments and route them to performing classes.