

Psyching Yourself Up to Let Losers Go

*Selling Can Hurt:
Here Are Some Ways
To Ease the Pain*

By JASON ZWEIG

When you buy and hold, you don't have to use a death grip.

Of course, you never should sell a stock or fund purely because its price has gone down. If your original reasons for buying turn out to be wrong, however, you should consider selling.

Yet letting go is much easier said than done. Sell a stock or fund at a loss and your pride goes with it, trailing in its wake a stream of regrets about what might have been.

Individual and professional investors alike struggle with selling. Berkeley finance professor Terrance Odean has found that **investors are at least 50% more likely to sell their winners than their losers**. Among the money managers surveyed by Cabot Research, a Boston consulting firm, **fewer than 30% base their sell decisions on "extensive research."** The rest concede they basically sell by the seat of their pants.

All too often, investors are prisoners of the past. Did you buy General Motors last year at 42? Dump it now, around 10, and you abandon all hope that it will recover its former glory. Hold on, however, and you can tell yourself that you weren't wrong; you just haven't yet been proved right.

The longer you've owned a stock and the more you've lost on it, the harder it can be to sell. "Once you start thinking about how much pain a stock has caused you," says Columbia University psychologist Eric Johnson, **"that emotion blocks you from thinking about the advantages** you could get from selling." You may think you own a stock, but the stock may own you.

Then there's the haunting belief that your portfolio is ruled by a version of Murphy's Law: Whatever can go up will go up, but only after you sell it. Cornell University psychologist Thomas Gilovich explains, "People tell themselves, 'If I sell, and it goes up, I know I'll kick myself,' because it's **so easy to imagine having**

hung on to it instead." Over the years, I've heard dozens of fund managers say they made a stock go up just by selling it.

Fortunately, there are techniques that can take some of the emotion out of selling at a loss.

Use stop-look orders. I am not a fan of stop-loss orders, which automatically sell you out of a stock when it drops below a preset limit -- and tend to fill both your portfolio, and your broker's pocket, with cash. But I do believe in what I call "stop look" orders: Whenever a stock drops, say, 25% below what you paid, automatically review your original top three reasons for buying to see whether they are still valid. That will prevent you from selling without thinking first.

Don't go far afield. Minimize your risk of future regret by replacing what you sell with something similar. If, for instance, you want to unload Beazer Homes because you underestimated how risky its inventory was, you could move the proceeds into [SPDR S&P Homebuilders](#) ETF or iShares Dow Jones U.S. Home Construction Index Fund.

Shop before you drop. Ask yourself: Which stock or fund would I most like to own? Then view your losers as a source of funding to reduce the amount of cash you would otherwise need to raise. "Thinking about possibilities instead of pain," says Prof. Johnson of Columbia, "will make selling a lot easier." (Remember, too, that once you sell, you can [deduct up to \\$3,000 of your losses](#) from your taxable income.)

Get over it. Robin Hogarth, a management professor at Pompeu Fabra University in Barcelona, advises changing the log-on for your brokerage account to something like "dumpmylosers." Repeatedly typing such a phrase will soften your resistance to selling.

Reprice it. Let's say you bought Citigroup three years ago for 43.50. Divide your original purchase price by 10. Imagining that you paid 4.35 should help you see today's price (around 17) in a new light. If you can't justify why Citigroup is still cheap after quadrupling from what you "paid" for it, you should sell.

Follow your sales. Using an online portfolio tracker, monitor the returns of all the stocks you sell after you sell them. Studying the aftermath of your mistakes will enable you to learn which you sold too soon and which too late. You cannot improve what you do not measure.

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