

Don't Wait For The Top To Sell

**Portfolios heavy
with
under-
performing
stocks almost
never
outperform the
market.**

Ignat's Law

**"I never buy at the
bottom and
I always sell too soon."**

Baron Rothschild

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It seems a quirk of human nature that if a trader does not sell his stock at the absolute top of the price move, his investment was a failure. This seems to be a silly notion that is usually held by amateurish traders and investors.

The goal of selling at the top seems to be a self-imposed objective for many investors. No where in the literature of investment management does it say that a sale of a stock at less than the ultimate peak of the up move is a failure.

The real difficulty in trying to "top-tick" an investment is the very regrettable situation where the top has past and the investor is now trying to regain the ground lost as the stock moves down in price from its top. The investor wishes he had sold earlier but now he feels that he must wait for the top to be regained before the stock can be sold. This usually does not work out very well for the investor.

If it is truly the top in the price of the stock, then that top price will not be seen again for a long time.. The investor is now hoping for a recovery in the price that probably won't occur. This is the fatal flaw in trying to sell at the top. The unrealistic goal of selling at the top has locked the investor into a position that will probably end badly. In the worst case, the investor may give back all of his profit while waiting for a return to the peak price and sometimes the downward reaction is so severe that he winds up selling at a loss. That is a very regrettable outcome that was produced by the desire to sell at the top.

The more realistic investor knows that he cannot determine if the stock price is at its top while it's on the

way up. He wants the stock to generate a substantial gain and to close out the trade before the stock starts down in a meaningful way.

During the progress of a major up trend, there will be several downward reactions along the way, but each correction will stop and reverse at a level above the lows of the previous reaction low. This sets up the rising, stair-step pattern on the stock's price chart. The investor becomes accustomed to waiting out these corrections in the price as the up trend unfolds. This can make the investor complacent about price reactions and that almost assures that the investor will not sell at the top.

On the other hand, some investors are so skittish about their investments that a minor correction in the price trend can trigger the sale of the stock. The inability to ride out a minor correction assures that the gains will be small and the goal of a substantial profit will prove unattainable.

The investor's true objective is to realize a substantial gain from the investment and when that goal is reached, he should sell the stock and not wait for the top. In this way he is assured that the profit will be protected and a successful investment will have been accomplished

It seems that contradictory behaviors are required, to not sell on minor reactions and then to sell because the goal of a meaningful profit has been attained. At some point the size of the profit must cause the investor to switch from a behavior of riding out corrections to making a sale into strength. Some investors have this knack and others have to acquire it through experience. Trying to sell at the absolute peak in the price assures that the stock will be held well after a new downtrend has begun.

W. Clay Allen CFA