



Brainy's Articles on Share Trading**

Monitor your positions

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This article
is NOT free*

Introduction

When holding an investment position such as shares in a blue chip company, many people have been used to putting their shares "in the bottom drawer" and forgetting about them. Many people in the past have ascribed to the view of "buy and hold".

However, over time a company can change in many ways. It can become unloved by the market (eg. Telstra from 2000 to 2010), or government policy can affect the viability of a company. The economic cycle of the day can cause a company to perform better, or worse.

These situations mean that the old buy-and-hold strategy of yesteryear is no longer as valid as it used to be. Many investors have seriously called it into question. Many investors have realised that some of their investments are benefiting the responsible fund managers a lot more than themselves.

So, it is important to form a firm opinion about our investment or trading strategy, and whether there are any circumstances under which we might consider selling an under-performing investment. Then with a firm opinion in place, we need to take appropriate actions to implement our views.

This Article in Brainy's series on Share Trading and Investing (number ST-5510) discusses the importance of pro-actively monitoring any investment position to maximise performance, and provides some thoughts about implementing this approach.

Why monitor the position?

Take a look at the price chart in Figure 2 at right of Babcock and Brown over a one year period from mid-2007 onwards. Notice that it fell 84% (from \$34 down to just \$5) over a one year period. If we were holding this stock in late 2007, and if we were monitoring its performance on a weekly or monthly basis, then we might have seen it plummeting, and we might have liquidated our position.

Now note the weekly chart of Nylex in Figure 3 below. It fell some 86% over 31 weeks, before rising a little and then plummeting out of existence.

When we realise that this could happen to any of the stocks in our portfolio, it does make sense that we should monitor our open positions from time to time, and consider liquidating a position if the situation is looking too bad.

But, how often should we review our positions? And at what point should we liquidate our position? These issues are discussed in this article below.

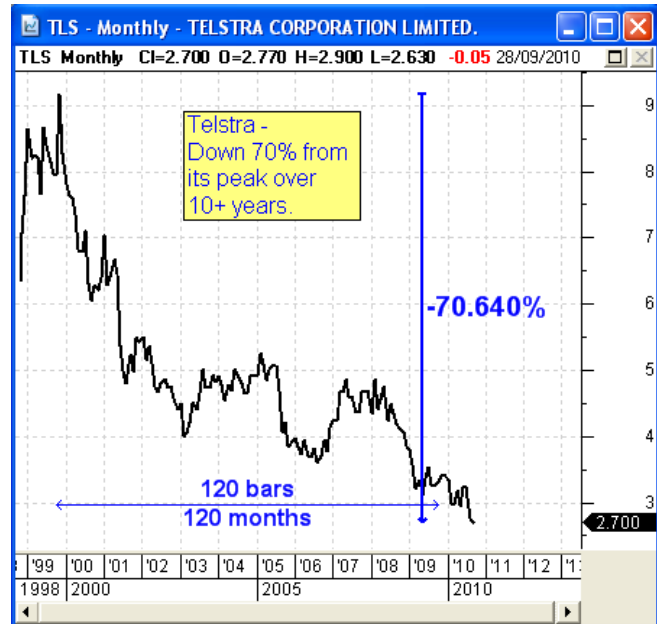


Figure 1: Telstra's share price performance over 10 years.

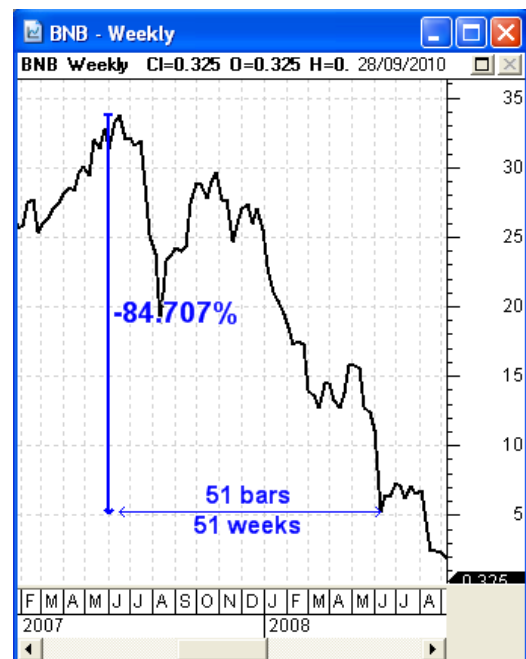


Figure 2: Babcock and Brown — falling 84% in 51 weeks.

** - The two words *trading* and *investing* are often used somewhat interchangeably.

* — Brainy's eBook (PDF) Articles are only available to **Share Market Toolbox** members. Visit www.robertbrain.com/articles/ for more information.

The first page of every article is free, and some of the articles are completely free (eg. shorter ones and Table of Contents).