When Should You Sell Investments?

If you're a long-term investor, your portfolio may stay fairly stable over time. However, that doesn't mean you will never sell any investments. But when should you sell — and why?

Here are some scenarios to consider:

• *If an investment has consistently underperformed* – For one reason or another, some investments may not live up to your expectations. Rather than holding these investments in the hope that they will eventually show consistently positive returns, you might be better off selling them and using the proceeds to buy other investments that could help you make progress toward your goals. Keep in mind, though, that short-term price swings are inevitable for virtually all investments, so you may not want to sell an investment after just a few price drops, as it may still have strong fundamentals and good prospects.

• *If the investment itself has changed* – The nature of some investments, such as stocks, can change over time. Stocks represent companies, and companies can evolve and adapt — or not. So, you may own shares in a company whose management has changed or whose products are less competitive than they once were. If this company no longer seems like a sound investment, you may consider selling your shares and moving on.

• *If an investment is "redundant"* – Over time, you may have added investments that are similar to others you already own. If you do have too many investments that are alike, you risk not having a fully diversified portfolio, and while diversification can't always protect against all losses or guarantee profits, it can help reduce the impact of market volatility on your holdings. Consequently, you might want to sell an investment that may now be "redundant" to your portfolio and replace it with another one that could boost your diversification efforts.

• *If an investment takes up too much space in your portfolio* – If you bought an investment years ago, and it's grown substantially in value, it could eventually take up more space in your portfolio than you had intended, which could expose you to more risk than you'd like — because too much of any single investment may leave you more vulnerable to market downturns. Of course, if the investment is still appropriate for your needs, and still has a good outlook, you may not want to totally liquidate it, but you could consider scaling back on the shares you own.

• *If your own needs have changed* – You originally created your investment mix to help you reach certain goals, such as a comfortable retirement. And during much of your working life, you could possibly afford to invest primarily for growth, accepting the risk that comes along with that approach, as you knew you'd have time to potentially overcome the short-term volatility that's part of investing. But as you near retirement, you may want to lower your risk level. Consequently, you could decide to sell some of your growth-oriented investments and move the money into income-producing ones. However, even during retirement, you'll still need your portfolio to provide some growth opportunities to help you ahead of inflation.

Generally speaking, you may not want to do a lot of selling (or buying) of investments once you've built a portfolio that's appropriate for your goals, risk tolerance and time horizon. But if you are going to sell investments, make sure you do so for the right reasons.

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