



BUY LOW, SELL HIGH OR HIGHER?

I bought stocks near the bottom of the market. They have now risen 30%. Should I sell or hold them?

Fiona, Nords Wharf

Despite the stockmarket copping an absolute pasting in recent few years, it has bounced back alot from the lows of a few months ago. It poses a tough question for investors such as yourself Fiona.

Do you sell and lock in a profit now? After all, in these turbulent times, share prices could quickly fall back down again and you are back to where you started.

Or do you hold and hope that the market continues its strong surge like many experts are predicting & get further growth? If you sell now, would you rue the decision for selling too early?

As you have been fortunate to get good growth then you should perhaps consider selling half. This effectively gives you the best of both worlds. You are virtually covering your initial investment yet still giving you the benefits of any future price rises.

As the table below shows, if your shares were to rise by a further 30% then under this strategy your net return would be a very respectable 49.5%. But if the market fell by 30% (ie back to the original price), then you would have still made 10.5%.

	Sell none	Sell half	Sell all
Further 30% growth	\$16,900	\$14,950	\$13,000
%	69%	49.5%	30%
Return to original price	\$10,000	\$11,050	\$13,000
%	0%	10.5%	30%

** Based on original investment of \$10,000 that is currently worth \$13,000*

An important consideration in whatever course of action that you take will be tax. If you sell your shares within 12 months of original purchase then you are liable to pay capital gains tax (CGT) on the whole profit at your marginal tax rate.

However you would be entitled to a 50% CGT discount available if you dispose of your shares after holding them for at least a year.