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Are you treating equities in your portfolio like you do your exes?

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Investors must be ruthless about stocks that have not done what they expected them to do. (Pexels)

SUMMARY

Out of sight and out of mind may work well for relationships gone wrong, but it is an ill-advised approach when it comes to stock investing. Once-loved equities lurking in your portfolio mustn't escape a hardnosed review.

Think of your exes—you may still nurture tender feelings for some of them, but most are in the category of "Good Lord, what was I thinking when I started dating them" or "fell in love with them" or God forbid, "married them!"

You don't even want to think about them now, do you?

The stocks on the last page of your depository participant (DP) statement, which details your portfolio, are mostly in the latter category. You loved them once but now wonder how you got entangled with something so useless or toxic.

While having nothing to do with your ex may be good for your mental health, avoiding your previously loved stocks can really harm your financial health if they are still lurking on your depository statement.

I have seen stocks like Pentamedia, NEPC Micon, DSQ Software and others sitting in people's portfolios for two-and-a-half-decades and counting. Real life grandparents' portfolios are stuffed with stocks from groups like JK, Mafatlal, Modis, etc that were never sold.

I hear similar stories from many financial advisors and wealth managers. It's the long tail of all but forgotten stocks.

Unfortunately, some of your capital is still tied up there, and if you had got out of them in a disciplined fashion, the value of many would not have gone down to virtually nothing.

Never forget the golden rule: anything that you would not buy at today's price, you should not be holding in your portfolio.

That is the simple and only valid test. The 'hold' rating exists in the world only because most investors refuse to acknowledge this simple truth.

What happens even more often is that if you buy five stocks and one of them doubles or triples, you book profits on that so that it appears that your portfolio is profitable, whereas you hold on to the ones that fall 40% or 50% or even 70%. This means is that over time, you get rid of your winners and hold on to a lot of losers and pure junk—the exact reverse of what you should be doing.

Your portfolio becomes a graveyard for the debris of bull markets from the past. Ideally, you should never sell a stock that has done well simply because it has gone up, say, X%, because if you do that, you will never get the true multi-baggers.

On the other hand, you must be ruthless about stocks that have not done what you expected them to do.

What can you do now? Do not postpone things any longer. This very weekend, grit your teeth and go through your entire DP statement—right up to the last page.

Answer the question that if you had cash today, where would you have invested it.

Get rid of anything and everything that does not make that cut.

No waiting for something to come back to your purchase price or some other mental target you may have. Remember that the market has no interest whatsoever in either the price at which you bought the stock or your hoped-for price.

Unlike you, it has no stories attached to those numbers.

The other statistic to remember is this: nearly three-quarters of the stocks ever listed on Indian stock exchanges do not even trade anymore. Their price is now zero. Just think about it.

Roughly 4,500 stocks trade actively in the Indian market. The number of stocks ever listed is three to four times that number.

After all, in the 1990s, there were single years when the number of listings were 1,100 and 1,200. Most of those have disappeared into the blue yonder.

That is why the best thing you can do for your portfolio is that when you are making an investment, tell yourself that you may be making a mistake.

Because it is certain that a good chunk of your investments will not do what you expect them to do, partly because the future is uncertain. No one knows what will happen.

This should have been the lesson you took away from the covid crisis.

At the beginning of 2020, nobody knew that the pandemic would hit. But suppose you had known that there would be a disruption in the world that would kill millions of people and revenues for several industries—from hotels and aviation to automobiles and many parts of the retail sector—would go to zero, could you have ever predicted that global markets would see a massive bull run later that year? This is how unpredictable life and markets are.

The other part of this equation is that even the best investor or fund manager in the world does not have a hit rate above 60 or 65%. No one has 90% or 100% of their picks doing well.

Warren Buffett? His lifetime average has been that he sold 85% of what he bought within two years and over 50% within six months. So clearly, even after all the study, many of his stock picks did not achieve what he expected them to.
The lesson in all this: look at your present investment mix, salvage what is salvageable and put it in a better investment today. Tomorrow is the start of the rest of your investing life.

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