skv group

faith . discipline . patience

'Let your winners run' but 'don't put all your eggs in one basket'.

Both investment sayings have value but when might it be time to sell a winner to avoid owning too much of one stock?

There are no iron clad rules for this but I personally prefer to limit a client's portfolio to roughly/approximately ten percent in one single company stock.

If the client has no intention to spend from her portfolio I might raise the limit to twenty percent or even more, especially if it is a large and financially healthy company.

I also don't typically like adding to a stock if it already exceeds five percent of the client's portfolio. That's when I think it's ok to let the winner run on its own.

These limits may seem reasonable but can still be hard to follow.

For one, if you've owned a stock for many years you may have become very familiar with the stock and feel that you know the company well. Rather than reduce you may even want to buy more.

Also, it's hard not to get overconfident and ignore diversification when you sit on a ten- or twenty-bagger.

Or it could be your large position is in your employer's stock and you know how hard everyone works so you find it hard to believe the share price can drop too much. Naturally, employees of most other stock companies will feel the same way about their employer.

Besides the familiarity bias I'd caution extra against owning too much of your own employer's stock. If something happens to the employer's fortunes you might not only lose your job but also see your portfolio decimated.

So, what to do if you think you have too much in a single stock?

Sell yourself down to what you consider a reasonable level, for example ten percent of your portfolio, and make it a rule that if the stock again exceeds a higher bound you'll sell back down to the lower allocation level.

Yes, you may owe capital gains taxes. If so, set money aside to help cover the tax liability and then consider buying other stocks with the remaining proceeds. That way, you've just diversified your portfolio and help reduce your reliance on one particular stock.

Another way to help reduce your exposure to a concentrated position is to gift shares to your favorite charities.

If you were planning to give them money anyways, why not gift shares and leave the cash in your checking account. This way, you may not owe capital gains taxes, and the charity, if qualified, may sell your winner stock without incurring taxes.

In the end, however much you like a stock be careful so you don't end up with too much of a good thing.

Good luck.

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