The Australian Finance Podcast Episode Transcript

Episode: 5 reasons to sell your shares
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Kate Campbell. Welcome to this episode of the Australian Finance Podcast.

Kate:
It is good to be back, Owen.

Owen:
It is indeed. I've got a joke for you.

Kate:
I know.

Owen:
Batman invited all of the superheroes to an evening discussing Bitcoin investments. However, Superman didn't go because it was a crypto night. You're welcome. I'll be here all day with jokes, but today we're talking about selling, which is probably a more important topic for our listeners. It's definitely more requested, right?

Kate:

Yes. It was a popular topic in the Facebook community recently. Because we talk about buying shares and ETFs and other investments all the time. I mean, that's probably what our podcast is about, long term investing, we're focusing on the buying. We don't actually talk about when to sell that often, do we, Owen?

Owen:
No. And this is a particularly hard question for a lot of investors to answer, particularly if you're new. There are many reasons that you can think about selling. I personally think, in the ordinary course of investing, I think there are only two reasons why you should sell, but we're going to outline five today. There are many more reasons, we're just going to cover five of the common reasons. And I think this is a good basis to build on. Inside our Rask Invest membership service, I detailed 10 ways or 10 reasons to sell. But this list here is actually very good. Kate, when was the last time you sold a share?

Kate:
It would've been a few months ago now, but I did want to point out that this episode is about selling shares and not ETFs because I think there's a few different considerations there. And if you want, we can do that as a whole separate episode, but I just wanted to point that out at the start, before we go in, because some of these reasons are a bit different or the way we explain them will be different to how you would think about selling ETFs.

Owen:
Yeah, that's a good point. If you do want us to cover that or if you want an episode on our best investing jokes, let us know.

Kate:
No. No one wants that, Owen.

Owen:
Let us know because we can roll with some of them as well. Kate, do you remember what the share was that you sold?

Kate:
No, it's been a while.

Owen:
Kate's portfolio is vast.

Kate:
I've been a bit busy. I went on holidays and didn't really think about it for a few months.

Owen:
Yeah. Right. Okay.

Kate:
Yeah. No, I can't remember. What about you?

Owen:
Yeah, it's been a while, I think, since I've sold anything. I think one of the small cap companies inside our Rask Rockets memberships, actually I think I sold after we closed one of the services, to move on to the new one and I think I sold one of those companies. I think it was QuickFee. I could be wrong.

Owen:
But anyway, enough of that, let's get into the five reasons that people do sell. It's clear that you and I don't sell that often. Actually just on that, some of the best investors I've ever come across don't sell that often. They might sell an investment once every few months because typically their decisions are better. The people that sell more often are typically the people that don't really know what they're doing and that's okay. Particularly when you're new, you're still discovering investing.

Owen:
But as Morgan Housel says, 99% of long term investing is doing nothing. And the sooner you can get to that kind of momentum, if you think about that, that's only one every three months. One day, every three months, you actually do any buying or selling. If you can get to that sort of cadence, you're going to make a lot better decision. Yeah. Okay, Kate, reason number one, what is it?

Kate:
The first reason, which has occurred to me on many occasions and still continues to occur to me to this day, is that you don't have any idea why you purchase the shares in a particular company to begin with. And I think this happens a lot to beginner investors, when they're introduced to a company through social media, different forums, maybe a Facebook group, maybe you even heard about a company on a podcast. I mean, there's lots of investor and finance podcasts aside from ours. And we do mention names of companies.

Kate:
Maybe your Uber driver mentioned it, or your father told you about it. And you end up with investments in your portfolio as you go long, but you don't really know that much about, and even Stake when they were giving their free share, if you signed up with a referral link, one of our friends was telling us that they ended up with quite a few random US companies in their portfolio that they didn't know that much about.

Kate:
I think it's quite interesting over time, as you are figuring out how to invest and how you want to do it, often you can end up with some companies in your portfolio that you probably should know a little bit more about if you're going to keep holding them over a long period. And I think it's a challenge, having too many companies in your portfolio you don't know anything about

because when the company starts having a challenging time, maybe the share price falls, and if you don't know anything about it, you might not really understand what's going on and you don't know whether you should hold it or whether you should sell it. And you might not have the conviction to hold it through a challenging period of time, whereas if you had done your research and you could look at what's going on? Do I understand the broader picture? Am I still happy to sell? You'd have a bit more context there.

Owen:
I think a really good example here would hit home. Maybe if you can share an example with us of how this can happen.

Kate:
Yeah, absolutely. And this is an example we see time and time again. Most of us did it at one point. Our family, friends, people we work with. Let's say someone's just getting started, we'll call him Patrick, he opened a CommSec account and then he just started to buy some different companies that he saw mentioned in various HotCopper forums, maybe he saw the company listed on Reddit or Twitter and he just sort of added to his portfolio that way and he wasn't really concerned about researching because he was busy and he just wanted to have a go, which is completely cool and it's a way a lot of us get started.

Kate:
But a few years later, Patrick's figured out how he wants to invest for the long term. He's done his research, listened to some podcasts, maybe he wrote a few books and he's had a look at these companies and he realises a lot of them don't align with his new investment approach and so he doesn't want to waste time researching them all, so he decides to sell them because he wants to focus on his new portfolio strategy going forwards.

Kate:
And sometimes, this happened to me years ago, when I was just getting started, I had no idea what I was doing, I was just sort of having a bit of fun. And once I figured out what I wanted to do, I wanted to clean the slate completely. I was only playing with a small amount of money, there was really no tax issues to be aware of. And I just had to pay the cost of brokerage, just to start afresh, start from zero again in the brokerage account, which helped.

Owen:
That's a good point you bring up there about tax. Just so you know, if you sell that again, meaning that you buy at $10 and you sell at $15, you will be taxed on that as a capital gain. If you hold the investment for more than 12 months, you typically will pay less capital gains tax. That's a question we get a lot. It's different to when you have an ETF, you also pay capital gains tax there, but you can also pay tax when you get that annual member statement. It's a little bit different, but just keep that in mind.

Owen:

And this is one of the reasons why we say, trading, which is that day-to-day, week-to-week type mentality, can actually cost you a lot more than you realise. Not only are you paying brokerage costs and you're probably getting subpar returns, unless you really know what you're doing, you're also going to pay more taxes, a lot of friction there. Yeah, that's a really good example. Patrick sounds like quite the HotCopper user and getting started.

Kate:
He's reformed.

Owen:
He has reformed.

Kate:
He still looks at HotCopper from time to time just because it interests him, but he doesn't spend all day on it anymore and he's set up his strategy and he's pretty happy going forwards now.

Owen:
Yeah, that's really good for Patrick. And people go into a lot of these...

Kate:
Good for Patrick.

Owen:
People go through a lot of these cycles and waves. I've had this in my life too. When I first started, I started buying NAB and Telstra and all that sort of stuff. And then I thought, geez, I'm really good. And then I'll go and buy options and warrants and all these exotic things that finance people do. And that was a horrible decision. And I realised that I just had to completely reset.

Owen:
It's actually something that we've talked about before called the humility curve, which is where you start off very simple, you get this rush of blood, particularly for men, this is what happens. You think you're really good at this, you get more complex with your trading and you're more complex with your investing, you might have ended up dabbling in something like CFDs, which we've talked about before, are very dangerous. And then you come back down.

Owen:
And on that way back down, the complexity, you become more humble and you just keep it simple and you're going to do some selling on that way back down. And ultimately this is reason number one is, you really don't know why you first purchased shares to begin with. I'm going to explain to you in just a minute, how you can solve that problem, but it ties in with number two. What's reason number two of why people sell?

Kate:

Reason number two is, if you've done a little bit more homework and you know what you bought and why you bought it. The second reason is the investment case for the company you invested in changes. If you've done your research, you're the reformed version of Patrick, you've spent 10, 20 hours looking into a company, you've investigated their management team, you know what products and services they sell. Maybe you've even looked at the competitors and the reviews online, and you've compiled all your research and you're pretty confident with what you invested in.

Kate:
But as we change, companies change, over the years, the company might have changed direction, made a different acquisition. It might be selling new products. It might have discontinued the products were the reason why you invested it in the first place. The company might have gone to court over certain issues. There might be new CEOs. There might be new, good or bad, press that's come out. And not all these changes are going to be positive for the company or positive in your opinion for the company.

Kate:
And sometimes they might mean you don't want to invest in that company anymore. And that's why it's really good to have that research written down because you can come back to it. If the company makes an announcement or bad press comes out, you can make a really informed decision when the company might make some changes.

Owen:
Yeah. This is what we call an investment thesis. This is all about writing your new notes down. You will remember countless times, when we did shares month in 2021, we talked about this as well then. We've shared our investment checklist, a very simple investment framework. You can find it on rask.com.au/philosophy. And although our checklist, as analysts, is multiple pages, we've got about 45 questions on there that we have to answer before we can even begin researching. That's how comprehensive it is.

Owen:
For these five things, you can just focus on these five things, if you do a miniature write up. What I would say is, whenever you buy something, write down what the company does, who the management team is, what's the long term growth outlook? Why is this company stronger than competitors? And if you can, just outline the reasons that you might sell.

Owen:
Those are some very simple questions. If you write them down in advance, you're going to be a much better investor over the long term, because you're going to reflect on the reasons that you bought or sold something. And you've got something, as a basis, to work forward to.

Owen:
For example, we had a company, I'll give you an example of how this goes right and wrong. There's a company called Bubs Australia, B-U-B is the ticket code in the Australian market.

Bubs creates infant formula and goats milk. And we thought it was a really strong brand here in Australia. We thought the potential for the business in China was also really compelling because goats milk was a growing market in China. But then obviously we had the trade war between China, Australia and the USA.

Owen:
And then also, the business here in Australia started to falter because people weren't buying it from Chemist Warehouse and shipping it overseas. Our investment case, our investment thesis was broken. And subsequently, we actually did pretty well from that because we avoided it falling further.

Owen:
But I'll give you another example. We invested in a company called The Trade Desk from the US, it's a company that does advertising for websites and for ad agencies. And during COVID, I was really worried that the business was no longer going to get advertising revenue because everyone was scared about spending money. We sold it because it didn't align with our thesis of capturing more of the advertising dollars. Turns out it went completely the other way, and it got more and more and more. And the company went up about five times in about six months. But just having that thesis, we could reflect back on it and be like, okay, why did we own The Trade Desk? Why did we own Bubs? Okay, that's no longer the reason that we still own it. Very good reason to break.

Kate:
And the reason you buy a share and your investment case might look completely different to someone else's reasons. Something might change about the company and your friend, who owns these shares, might be completely fine with holding on, but because of your investment case and the reasons why you want to own it and why you wouldn't want to own it, you might decide to sell. It's really personal and that's why it's good to do the research and work out what your own framework and rules for selling are.

Owen:
Yeah. Professor Richard Feynman, I believe, this is the best use of this technique, it's called the Feynman technique. You explain it to someone else. You explain your investment thesis. If you've got those five things on your piece of paper, we use Notion by the way. We put all of our investment research into Notion, it's free if you're just signing up on a single use plan.

Owen:
We write the five things down and then we'll explain it to the team and the team can poke holes in it. We go back to the drawing board, do more research, and then we explain it to the team again. If there are more holes, then we go back again and you do that process until the very end. And then you simplify it. It's called the Feynman technique. Learn by research, explain it to someone else, go back to the drawing board and then at the very end, simplify it down to its very most basic reasons for owning the investment. Fantastic. Powerful. I don't know, did you use the example of someone?

Kate:
No, I haven't. Okay. Let's say there's an investor called Natasha, who's spent 20 hours researching company Bravo, I'm just making up a name here, a few years ago, before deciding to invest $5,000 in it. She's feeling pretty confident. However, a few years later, the company made an acquisition that Natasha didn't think aligned with the business anymore, and it didn't really fit within her reasons for owning it. After reviewing her initial research notes and learning more about the current situation and really taking a good look at everything holistically, she decided to sell her shares in company Bravo.

Owen:
That's great. I can hand over heart say that this is the most powerful thing for investors in individual shares. You can even do this for ETFs. You can do it for anything that you do in your life, basically, but for individual shares, this is powerful. Writing down your reasons for buying something is incredibly powerful. It will make you sleep easier at night. It will help you understand when things go bad, why you got into that situation. And generally it will just improve your understanding of investing. Out of sight and out of mind.

Owen:
Please go ahead and do this. If you need any examples, just reach out to us, use Facebook or Twitter, and we can put you in the directions of some of our checklists. Don't forget we've got our shares for beginners courses and all that sort of stuff on the Rask website. They will provide ways to do this as well.

Kate:
That even reminds me of our episode we did last year on making better decisions, after I was inspired by reading Annie Duke's book, "How to decide," because we don't really learn in school, about many things, but also making really good decisions and actually having a framework and a process around that. And I think this can apply to all areas of life and whether it's a career decision or a financial decision, having a process you go through, whatever works for you, but even just writing a few of the reasons why you made that decision and not another decision down is really helpful.

Kate:
And especially if you decide not to make a decision, if you're like, "I'm just going to hold this company for another year, see what happens," you should write down the reasons why you did that because by not making a decision on whether you want to hold it or sell it and just leaving it, that is a decision. I think that's important to acknowledge as well.

Owen:
Yeah. You reminded me of three things here. I'm going to be as quick and concise as I can. There's a thing in Annie Duke's book called resulting, which is where you judge the decision that you've made, the quality of your decision based on the result. A lot of investors buy shares,

particularly in that first instance where they buy things they don't know why, it goes up and they think, "Hey, pretty good."

Kate:
I've got this down.

Owen:
I've got this. Do exactly the same thing next time. I'll give you an example close to home, and this is not to butter my own bread, it's a massive lesson in humility. When I was starting out investing, I invested about two and a half thousand dollars, I think it was, in a company because I paid for a subscription for this website, which gave out broker research. You could go in, you could see what the brokers were researching and recommending.

Owen:
The value of my investment went to about $22,000, I think I've written about this online, you'll be able to find it. $22,000 in about a year. It was a huge opportunity. And then at the end of it, I was like, okay, genius, what my strategy was, I'd go into the broker website and pick the company that the brokers were most [inaudible 00:17:46] and buy it.

Owen:
That's what I did. I then just recycled that strategy, like, "Hey, I win. This works." But then, this is me going up that humility curve, up the complexity as well, losing my humility as I went up complexity. And then I started to take that money and I invested in really complex things that I didn't understand on this basis that I thought it worked and I lost basically everything that I had invested before and came right back down that complexity slash humility curve and now I just keep it simple.

Owen:
That's the first thing. Just one other thing, just to improve your knowledge of business and investing. Over the weekend, Warren Buffet came out with his annual letter, it's on the Berkshire Hathaway website, it's totally free to download. You should get it, he's the greatest investor that ever lived and his partner in crime, Charlie Munger, has this idea, he calls it the orangutan effect. He said, when you make an investment, basically, you should tell a bunch of orangutans what you're investing in and why.

Owen:
And he said, at the end of the day, the orangutan will have no idea what you're talking about, but you will understand it better because you've at least spoken about it and you will have realised the flaws in your strategy.

Owen:
Yeah, you just reminded me of those two things, but anyway, we should move on to number three, before I keep going. What's the reason number three that people would sell, Kate?

Kate:
Yeah. Third reason is probably something I wouldn't have mentioned, maybe going back five or six years, when I was getting started but now I think it's quite important. And that is, the company now falls outside of your ethical investing framework. And whether you call yourself an ethical investor or not, that's not really what I want to talk about. I want to talk about your values when you're investing.

Kate:
And when you invest in a company, you invest for particular reasons, as we mentioned before, and the company might make a change that you don't want to be associated with, or you really don't want your money in that company that's doing this thing. Companies can change over time and whether that's their approach to growing the business or hiring employees or dealing with their supply chain. Even if a company previously aligned with your values, when you invested it and put that investment case and wrote down your notes, something might have changed along the way.

Kate:
And that's okay. Companies change, we change, but by having a really solid outline of your own ethical investing framework and what falls inside and outside of that, and we do have a checklist in our ethical investing course, so you can actually go through all the different industries and sectors and go, "Hey, I'm happy to invest in that. Or that's a maybe. Or that's a hard no for me." And that makes it a little bit easier to make the tough calls when to sell a company because the company might be doing really well and there might be no logical reason to sell, but there's a values-based reason potentially to sell.

Kate:
That's another thing that, I mean, I think about a lot more now, even though I don't say I'm an ethical investor, I do think I invest more in line with my values than I used to. And that helps me maybe stay a bit more focused when I'm investing instead of just going all over the place. And it does stop me doing as much of the investing in companies I have no idea what they're doing, because I'm actually going, "Hey, I actually want to know a bit more about this company before I invest in it."

Owen:
Yeah. I too am like you. One thing that we've spoken about a lot is the VDHG ETF. I invest in that, we've recommended it for our Rask ETF service. And I invest in the A200 ETF, the BetaShares A200 ETF. And I mean, to be honest, there's part of me that thinks if I was starting out today, I wouldn't invest in either of those simply for the ethical considerations.

Owen:
Now it's not to say I'm selling, I haven't sold, I still own them, but over time my wanting to align my portfolio with my values has grown stronger and stronger. Now I'm at a point where I think I could see myself selling one of those ETFs and switching to an ethical version, even if it's not perfect, just switching across. Now, that's an ETF.

Owen:
You can do the same thing with shares, as you mentioned there. We'll give an example here. Let's say Raymond buys shares of Westpac for its JUICY fully franked dividends, that's a quote from Raymond, but later discovers as the results from the Royal Commission flow out, he believes it's no longer an ethical investment. He decides to sell his, quotes, "Big dividend fix, yo," end quote, and invest it in...

Owen:
He decides to sell and get his big dividend fix from an ETF like VAS or A200. That's a perfectly legitimate reason to sell based on your ethical grounds. People knock ethical investing for whatever reason but, like you said, Kate, it's personal. Reason number four, Kate?

Owen:
This is another genuine reason I think it's good to sell investments. Not necessarily limited to shares, can be anything.

Kate:
Yeah. Reason number four is, you need to rebalance your portfolio. And we talk about rebalancing on occasion, but I don't think we've really explained it too much. And I actually came across this reason in Owen's cornerstone article inside Rask Invest, which had 10 different reasons to sell it.

Owen:
You actually read that?

Kate:
I read it. Yeah. Most of it.

Owen:
That makes one.

Kate:
Oh no. No one else wanted to read it?

Owen:
No, it's good. Thank you. Go on.

Kate:
Well, sometimes your stuff's okay. Sometimes. Anyway, you're needing to rebalance your portfolio. And we have mentioned on the podcast before about having that core and satellite strategy where 80% of your portfolio might be in your core stable ETFs and 20% might be in something really speculative, or maybe it's your Tesla shares, or maybe it is your crypto or whatever it is, in that 20%.

Kate:
Sometimes those proportions change. Your core portfolio might fall and your high risk speculative satellite section might increase and you are going okay, suddenly now it's 50/50, and maybe I'm not comfortable with that because you had a put investment in your satellite portfolio. It could have been, maybe you bought Tesla five years ago, and now it's gone from a really small position to a humongous position in your portfolio, and it's dwarfing the rest of your ETS and you're going, "Hey, I want to rebalance it, so it's slightly more in line of my 80/20," or whatever approach you want to use.

Kate:
You might decide to sell some of that larger position, bearing in mind, there's going to be big capital gains affecting you there, because if it's grown that much, and then you might rebalance some of that money into your core ETF portfolio or whatever your core strategy is.

Owen:
I think this is a great example. This rebalancing happens all the time. This is why we like the VDHG ETF, from Vanguard, and the DZZ F ETF from BetaShares. Those are those diversified ETFs we've spoken about before. They do rebalancing for you. That's why they're good. But if you are an individual investor, you have a portfolio, you've got some share ETFs, you've got some bond ETFs, you've got some gold in there, you've got your crypto, you've got your individual shares, it can become really overwhelming really quickly.

Owen:
What we say is just have some rules set in advance. Kate used the 80 for the core, 20 for your satellite or your higher risk things that go around the outside. If that becomes out of whack, it's a good reason to sell, but what do you sell?

Owen:
I would say, when you sell, you want to sell the positions that you have the least conviction in. If you go back to your reasons for investing in something and you look through your portfolio and you see, okay, I own Telstra shares, I own BHP shares, but I don't like either of them, but Telstra is the one that I probably like the least right now. You would trim that position or sell that position and you would take that money and you would recycle it into something else.

Owen:
And basically, it's a really simple way to do it and it's the way professionals do it as well. They basically have a list of all their companies and they go, okay, this one's the one I've got to sell first because I don't like it. There's a really an example here as well.

Kate:
Yeah. And I think this is something you can visualise if you look at your Superfund and how they allocate. It might be 30% in Australian shares and 30% in US shares and all these different components. If one gets too far away from 30%, that they advertise on the tin, they might

rebalance it and they'll have different rules and timeframes. You don't want to be doing rebalancing every week.

Owen:
No, you don't. That's a good point.

Kate:
That's overly arduous and you're going to be incurring a lot of extra tax fees and you're not going to give the growth assets enough time to grow, which is sus.

Owen:
Yeah, probably once or twice a year.

Kate:
Yeah.

Owen:
That's generally the cadence. Another way I would do this. If I was telling you Kate or any one of our listeners right now, the way I would be telling you to do it is not necessarily based on timing, it's based on the weightings.

Owen:
Let's say you want to do 80% in your core ETFs and you want to have 20% in those individual shares. You might say, I have a 5% buffer. If it goes from 80/20 to 75/25, after that, that's when I'll rebalance, but I won't do it any time between now and then. And then within that core portfolio itself, that 80%, within that, you might also have another rule and you might say, "Okay, I'm going to have 60% of my money in share ETFs and 40% in bond ETFs." I don't know, that's just an example. If that's out of whack by 5%, I'm going to rebalance that section of my portfolio too.

Owen:
And that's another really valid way. Then it's not necessarily based on timing it's based on the actual weightings.

Kate:
Yeah. If we have an example of an investor called Sally who wanted to invest 80% of her portfolio in growth assets, like shares, think Tesla, BHP, whatever, Telstra. I'm saying Tesla, but I meant Telstra, but anyway. If she wanted to do this, but after two years, she noticed her portfolio mix rises. Now 88% of her portfolio is invested in these growth assets and 12% is in defensive income assets, which she wanted to be around 20% of her portfolio.

Kate:
She might have a rule that she's written down when she's figured out her investing plan, that is, I'm going to rebalance my portfolio whenever it's maybe two, 5% away from my strategy. And I

must invest it once it hits over 5% away from my strategy and having some rules in place can make it a little bit easier. This is getting a little bit technical. I don't personally have a rule that says once I'm 5% away from my strategy, I'm going to rebalance. And I think, potentially, this would apply more with people if they have larger portfolios or they're further down their investing journey because they may be getting closer to retirement.

Kate:
Yeah, I probably think about rebalancing quite differently to a financial advisor would for their clients.

Owen:
I think the other day you sent me a message via Slack. And you said, because we were talking about how we should try and add some reassurance because the people in the Facebook community were getting quite worried about their investments with all the volatility. And I said, oh yeah, I'm thinking of doing an email on that. And you said, I'm so grateful that I don't get worried about this stuff.

Owen:
And the reason, I believe, that you could say this is because you understand investing. You're surrounded by people who understand investing and you get that confidence that, hey, I've got this under control. Sure, my strategy might not be perfect according to a financial planner. I understand it, so I'm not scared.

Owen:
Whereas a lot of investors, who want to invest, but they don't understand it, they're not surrounded by people. They don't have that knowledge, having these rules in place is really important. What a financial planner would do, they'd sit down with you and they'd say, "Okay, Sally, we're going to put 60% of your money in shares and 40% in bonds." Again, it's just an example. And we're going to rebalance whenever it's 10% out of whack and that's really it. And that's the rule. And the reason why that's important is because it gives you a plan to follow when things get scary. So that at times, like recently, you can be like, "Okay, it's out of balance, but this is my rule."

Owen:
This goes into something that we call an investor policy statement, or IPS. Some financial planners will also call it just a statement of advice. But we actually have a DIY guide on this inside Rask. I feel like we're promoting the memberships, but we're not, we've just covered a lot of this ground before. All you need to do is basically put down a set of rules of why you own an investment and how you're going to structure your portfolio. If you do that in advance, you're going to be deliberate. And when the stock market falls, you're going to have a plan and that will give you so much confidence.

Owen:
That's a great reason, number four. What's number five, Kate?

Kate:
Number five is that, unlike reason number one, where you had no idea why you invested in this company, reason number five is that you've just found better companies to invest in. And there really is an opportunity cost to everything we do when we make one decision, we potentially take another one off the table. By choosing to invest in company A, we might removing the cash from our balance that we could have invested in company B.

Kate:
Sometimes we have to choose and we can't just invest in every awesome company that comes our way, which is always challenging for me because I get really excited about different companies and then move on to the next thing. At the moment, it's just slowing down and really been a bit more mindful about what I invest in rather than just going, "Oh, that is such an interesting company. Oh, that one is too." I know you had a quote here from one of your interviewees, Owen.

Owen:
Yeah. This is an interesting quote. Okay. When I spoke to Hamish Douglass, who was one of Australia's biggest and best investors. And also then when I spoke to Chris Judd, who's the former AFL player. Some might say he is even the best player of the modern age. Anyway.

Kate:
I have no opinion on that, Owen. I don't even know what team he played for.

Owen:
Okay. Well obviously Kate follows the AFL very closely. Hamish and Chris basically said the same thing. And both of these interviews are available in the investors podcast. They basically said they think of their portfolio as a sports team. Think about, AFL has 22 players, soccer has 11 players, you get the drill. And at any one time when they look at their players on the field, aka in their portfolio, they think, "Okay, who's the most tired here? Who's the weakest of these 11? I've got a substitute on the bench. I'm going to put my new player on and sub that player off."

Owen:
And that's basically how a lot of professional investors manage their money. As I said before, it's like having a list of all your players or all of your shares, okay, this one here, BHP, number 30, that's out, I'm putting in the one at 20, which might be Westpac. I don't know, whatever.

Owen:
This is a genuine way to do it. I would add one kind of asterisk. We're in finance, we've got to have asterisks. Chris Judd and Hamish Douglass use this strategy to manage their portfolios because what they basically want to do is they always want to be invested. Now that's different to some individual investors who don't always want to be invested. Sometimes they don't want all of their money in stocks. Sometimes they want it in cash or bonds or property or gold.

Owen:
It can be a slightly different arrangement. We've said in the past, Kate, that we are big advocates for an emergency fund. This would not be you put your money into your portfolio and it's always fully invested. This is literally just whatever money you've got in your investment account, that's the sports team. Keep that in mind.

Owen:
It's a really good way to think about it. And we call this, in finance, we have a fancy word for this. It's called opportunity cost. It's like, if you have $5 and you want a cake for $4 and a coffee for $3, you can't have them both, which one are you going to have? There's a cost associated with not picking one of the things. That's the same as investing.

Kate:
Yeah. I think even writing a list of all the companies you invest in and maybe even trying to rank them or put them into your high conviction, moderate conviction, and very low conviction, or somehow categorising them, if you have ended up with a few companies in your portfolio. Could be a good, just a thought process to go through, to try and work out what you want to keep. And if you have found some new interesting players for your team, what you might potentially want to take off the table?

Kate:
Because unlike the big investors, most of us, we're only getting cash to come into our investment portfolios potentially from our day jobs. There's not an unlimited cash pull to keep pulling from, to invest in new companies. It's not inflows from new investors. Yeah, you only have a limited amount of money and you do have to make some tough decisions, sometimes about what goes in your portfolio, because you don't want to touch your emergency fund and you don't want to touch the savings that are going to other goals.

Kate:
Sometimes it is hard. Recently I haven't had any additional money apart from the money I've got automated each month to go into my investments. I've been going, "Well, do I want to reallocate any of the funds I've already got invested? Or am I happy with the current layout of my portfolio or my investment team?"

Owen:
Yeah, that's it. Most of the listeners that follow this show or our investors podcast know that investing in shares is actually investing in companies. And it's not about watching things bounce up and down on a stock screen, even though that's how it feels a lot of the time. What it actually is actually understanding companies and investing where you believe the world is going. We say invest in your best version of the future basically.

Owen:
And this is where investing is fun because you get to learn about, oh, well, why does Afterpay make money? Or why is it better than Zip? Why is Telstra making so much profit, but it's got so

much... And you can do all this sort of stuff. And that's the fun part of investing. And you can do this at any time, whether you have cash or not, you can think about, okay, which one's my favourite?

Owen:
A note you said before, you get excited. Obviously it's quite frowned upon when you go to, particularly old school investors, you say, "Ah, it's so exciting." They're like, "Oh, they said, it's exciting, it's serious." It is, but it can be fun. And that's what we try and bring to investing too.

Owen:
Here's a really interesting quote from Warren Buffett. And this quote is about making better decisions and it comes back to that Annie Duke thing as well. And the quote is, "I could improve your ultimate financial welfare by giving you a ticket with only 20 slots in it, so that you had 20 punches, representing all of the investments that you could make in a lifetime. And once you'd punched through the card, you couldn't make any more investments at all. Under those rules you'd really think carefully about what you did and you'd be forced to load up on what you'd really thought about. You'd do so much better." End quote. That's from Mr. Warren Buffett. You might have heard of him.

Kate:
Owen's favourite human.

Owen:
Yeah. You might have heard of him. And it's basically, if you watch Warren Buffett, he does not trade, air quotes, "trade stocks." He does not use any complicated mathematics. For most of his life, he hasn't had a computer. He's never used social media for these types of things.

Kate:
Doesn't he still eat McDonald's every day?

Owen:
He'd eat McDonald's and have a can of Coke. And he'd go to the steakhouse all the time.

Kate:
What a life.

Owen:
This guy's the greatest investor of all time. And he just keeps it so simple. People like apple, Apple's cheap, but right now it looks cheap. It's got a huge opportunity in front of it, let's invest in it. Now he owns $160 billion of Apple shares. This is a very simple and concise way to think about selling.

Owen:
Kate, let's give it a quick wrap up. What are the five reasons that people would sell their shares?

Kate:
Yeah. To summarise everything we have said today, the five reasons, and of course it's super personal and there is other reasons, Owen's list had 10 and that was just some of them, I'm sure he could have kept going on. But you've got to figure out what works for you. But the five we shared in today's episode is that you have no idea why you purchased the shares to begin with.

Owen:
Number one.

Kate:
The second one is the investment case, for the company you invested in, changes.

Owen:
Number two.

Kate:
The third one is that the company now falls outside of your ethical values investing framework, or it won't let you sleep at night, it's keeping you up thinking about what that company is doing that you're not really happy to be invested in it, that you are not proud to tell your friends that you're invested in that company. That was an extension of number three.

Kate:
Number four is that you need to rebalance your portfolio because it's now out of balance or that your goals have changed. That's probably something we didn't touch on today, but your risk profile might have changed or something like that. That's number four.

Kate:
And the fifth one is that you've just found a better company to invest in and you want to change out some of the players in your investment team.

Owen:
Yep. I think that's a great list of five reasons that people sell. And I think they're good reasons. We've all been there. We've all done these. It's okay, you get scared. At times like this, it's pretty scary to invest. Those are five really concise reasons.

Owen:
I think the overall arching advice from us is just know why you invested in something and have the plan in advance. Set up your investment thesis, use Notion, use Google docs, use your Notes app, write it down in a journal, a trading journal, very popular, and set it against your long term goals. Why am I investing in this company? How does it match my long term plan? That's the investor policy statement, IPS.

Kate:
Yeah, I was just going to say, it was really cool to see one of our listener's comment in the Facebook community the other week that they'd actually put together their own investment research framework using that five step checklist, the podcast, plus some other resources they'd got from books and other websites and podcasts and taken the best bits of each thing and put it all together and created a framework that works for them. I think that's a really cool thing to do. And if you want to, there's a lot of resources out there and our link to the checklist we mentioned in the show notes as well.

Owen:
Yeah. Great. And as always, you can reach out to us. If you want to reach us, you can go podcasts@rask.com.au. You can also find us on Twitter, on Instagram. You can find us just about anywhere you get your fix.

Kate:
We're on TikTok now, too.

Owen:
We're on TikTok. Thanks to a secret someone in the team, who's rejuvenated that for us, someone who invests $5,000 in shares maybe. Kate, as always, absolute pleasure to join you on this episode of the Australian Finance Podcast.

Kate:
Thanks to everyone for listening.