
Sherwood Investment Services
Financial Planning & Investment Management

Eric Linger, RIA
Registered Investment Advisor

425-898-8989
Sherwood-Investments.com
elinger@Sherwood-Investments.com

23705 NE 61st Street
Redmond, WA 98053

The Savvy Investor

When to Sell a Mutual Fund

A common question I get from investors about mutual funds is how to tell when it's time to sell? It's a great question, but some investors may not like the answer. There are several questions to ask of each fund you own:

1. Has the fund under-performed its peer group during the last 3 years. You can determine this from a number of on-line sources or major fund reporting services such as Morningstar.
2. Has the manager changed? You can find this out by calling the fund directly. The fund manager is the most important variable in fund performance.
3. Have the expenses or turnover changed? The easiest place to look is Morningstar.
4. Have the assets grown too quickly? The semi-annual report you receive shows the changes in assets managed. Typically, but not always, a fund can have difficulty keeping up its past record when it grows too quickly.

5. Has the fund strategy changed? You can determine this by comparing the investments the fund holds over time, or read the prospectus to determine any changes in philosophy.

If this sounds like too much work (which you should do at least several times a year), then you probably shouldn't be managing your own investments. It's when you stop monitoring your funds that they have the opportunity to erode.

During the roaring 1990s, investors became convinced that all it takes to make money in the market is to buy some no-load funds with a good track record and sit tight. However, that can be a financial disaster. For example, funds focused on Russia soared in 1997 and then collapsed in 1998. Similarly, funds focused on emerging markets or small companies did well in 1997 and then had double digit negative returns in 1998. So "buying and holding" may be too passive a strategy.

Please contact us if you'd like to know more about how to select quality mutual funds.