Trim or Sell?
Which Is Better for Your Portfolio?

2025 SF Bay Area Chapter Investor Education Day

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Content

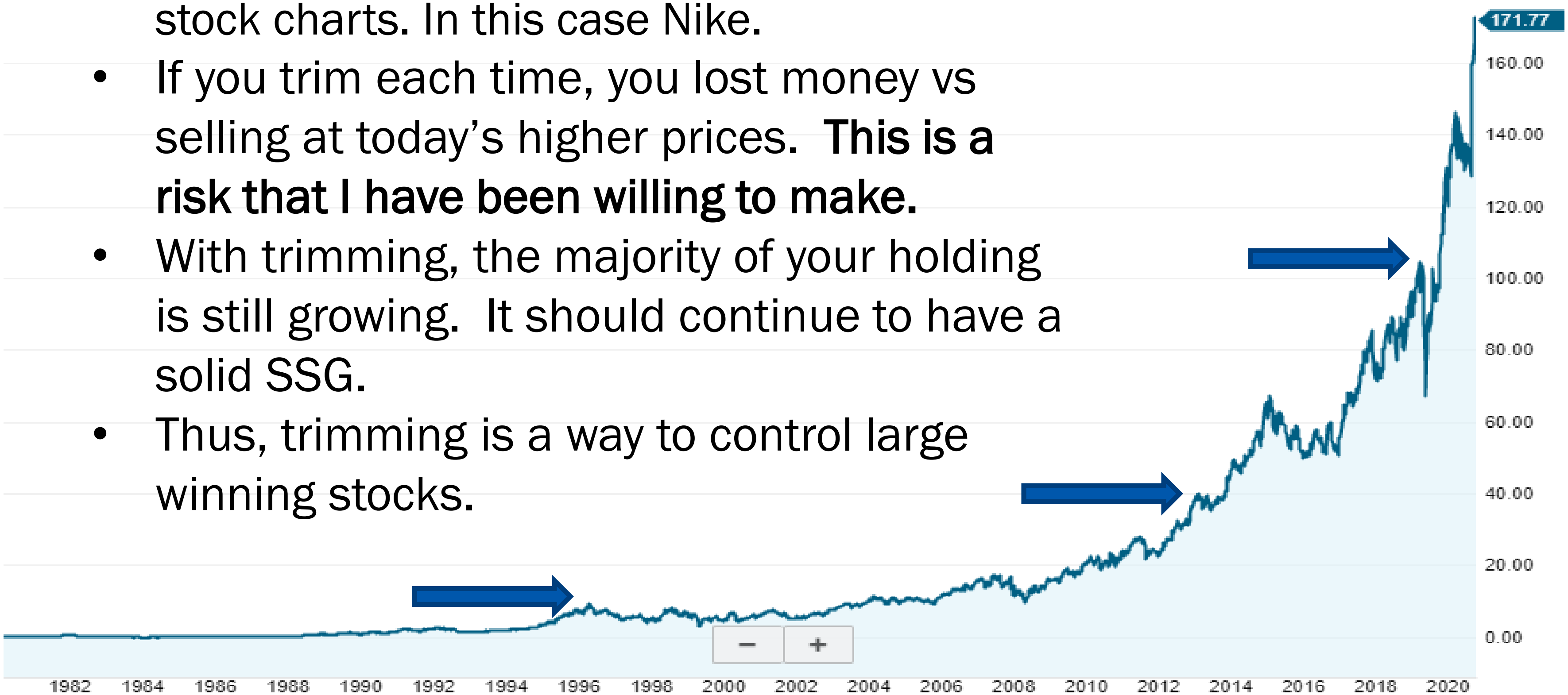
- What is trimming?
- If it is time to sell –what to do?
- Some reasons why selling is tough.
- Why trim versus sell?
- Economic moats – What are they?
- Guidelines to trim a holding.
- Holding a stock forever?
- Summary

The Concept of Trimming

- Definition – Trimming is where you sell a portion of your holding and let the rest of the holding run.
- Many investors spend a lot of time trying to figure out their losers and less time on their winners.
- You can automate this process for winners.
- Investors find it easier to buy versus selling stocks.
- Assume we are looking to trim high quality stocks as identified on the SSG.

How Do You Manage A Winning Stock Like This?

- If our goal is to try and find these kinds of stock charts. In this case Nike.
- If you trim each time, you lost money vs selling at today's higher prices. **This is a risk that I have been willing to make.**
- With trimming, the majority of your holding is still growing. It should continue to have a solid SSG.
- Thus, trimming is a way to control large winning stocks.



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Source: Charles Schwab, 8-9-2021.

However - We Might Have This Stock - BB

Trimming could help with a stock like this, but if you sold it all at certain times, you did great.
If you did nothing, you made no money over many years.

Obviously, we would like to avoid this kind of stock, but there end up being a lot of them over time. **It is hard to know the future.**

Source: Charles Schwab, 8-9-2021.

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What About This Kind of A Stock - AMGN

- This is a challenge – over 10 years of no stock appreciation.
- Do you have the patience?
- Trimming might help you wait for the stock to start going up again.

Source: Charles Schwab, 8-9-2021.

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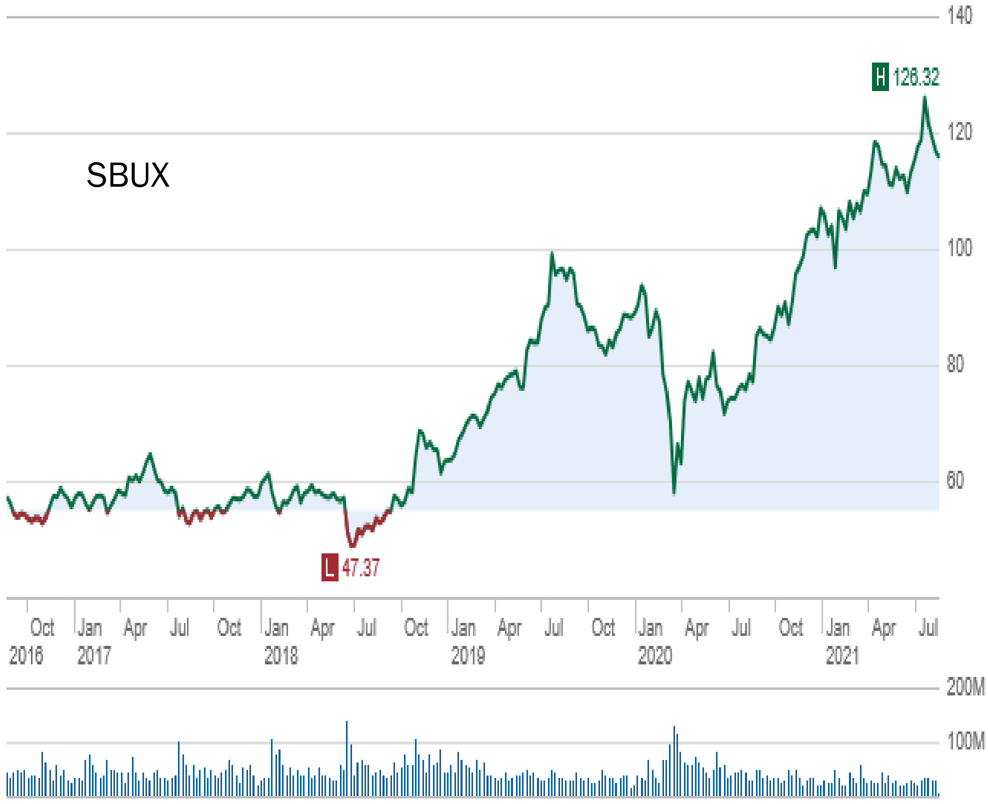
Every Day an Investor Has Four Options

1. Sell your shares
2. Buy more shares
3. Nothing
4. Trim



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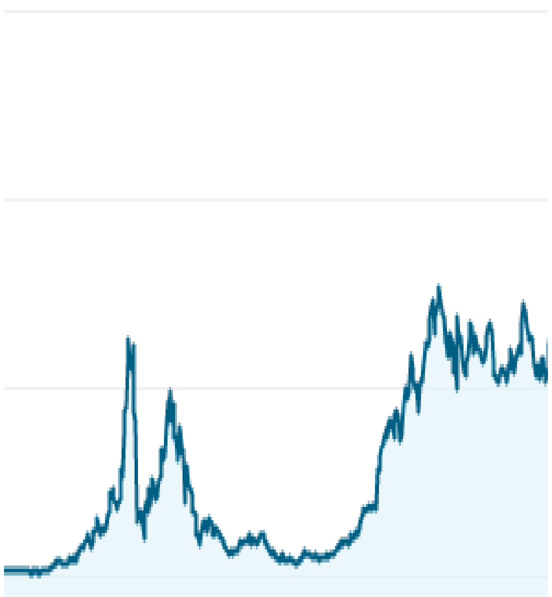
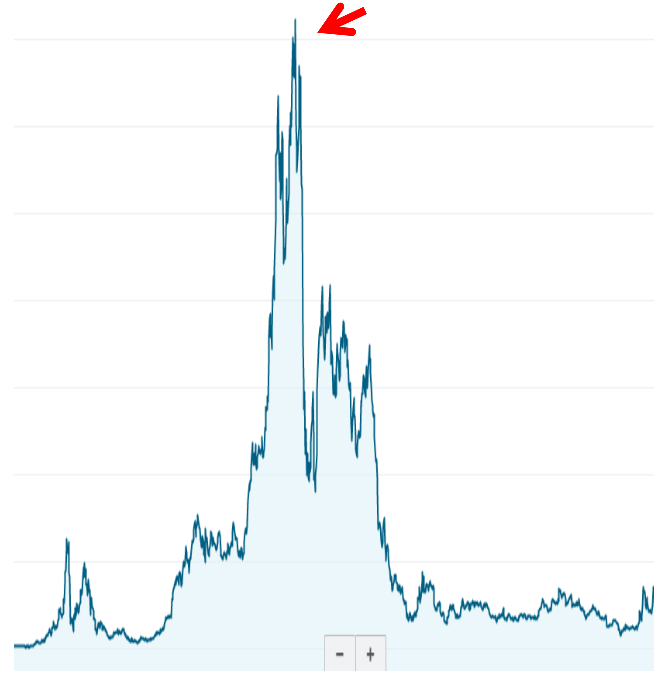
What Do We Do Now?

Check out your SSG!





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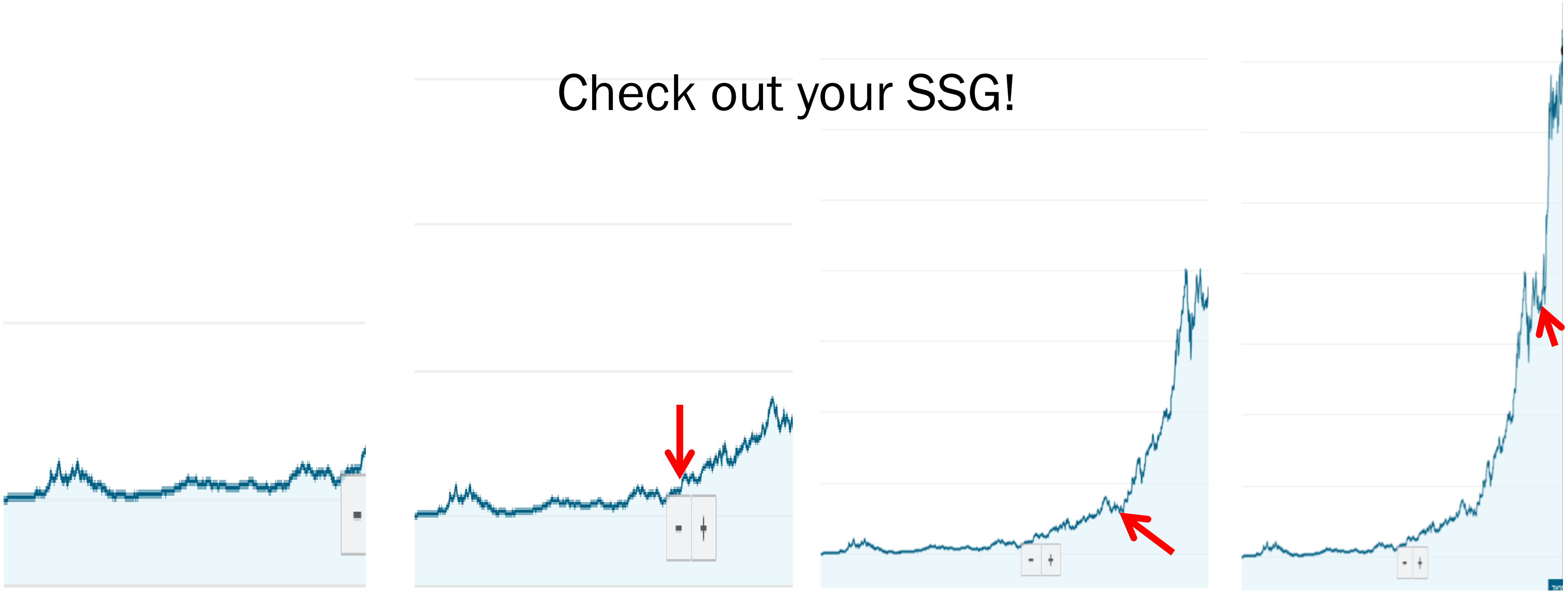

Source: Charles Schwab, 8-9-2021.

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Summary of These Charts

- It is easier to see a good stock looking backwards.
- It is easier when given the name of the stock.
- We are assuming we are looking at high quality stocks.

- It is a lot harder to say, “What do you do now?
- Consider your SSG for guidance at each decision point.
- The Amgen chart is a great example….

Selling Your Whole Holding Is Tough

As you just saw with the charts, it isn't always easy to figure out the future. Selling issues include:

- People don't like to admit they made a mistake.
- Fear of Loss AND Fear of Regret.
- Want to get out and get "even" if they are at a loss.
- There is no precise mathematical formula.
- ***If you sell now, you miss out on the future.***
- You lost money.

Many psychological issues with selling.

It Is Time To Reduce A Holding – Three Options

- Trimming a position – Winning Stocks
- Selling out of a position – Winners and Losers.
- Tax loss harvesting – Losing Stocks

- We will address these first two in this class.
- The third item – tax loss harvesting has a goal to generate some tax benefits from a position where you are at a loss. You could retain a position over time.

- Tax losses can be seen as a good thing in portfolio management.

Core Decision Tree On If You Should Sell or Trim

- The long term outlook for the company is unfavorable
- Deteriorating corporate financial condition
- Time and original thesis didn't work

Probably sell

- *Temporary declining profit margins*
- *Bloated current asset balance sheet - Inventories*
- *Adverse management change*
- *Increasing competition impacting profits*
- *Dependence on a single product*

Trim or sell

- **High valuation of a quality stock**
- **Position size has become too large – this is a risk too**

Trim

You Found This Stock - AMZN

If you sold everything at any of these points, you missed a lot of future gains – yet you made good money. **This is risk of selling it all!**

The big risk, in my opinion, to an investor is missing out on this kind of a great long term stock.

Source: Charles Schwab, 8-9-2021.

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You Have A Risk With A Big Winner

- Having a stock winner with a large position size can help your investment performance.
- However, **big position sizes are a risk too**.
- Large single stock positions can impact your returns if that stock falls significantly or goes to zero.
  - Examples – Worldcom, JC Penney, Lehman, Silicon Valley Bank and First Republic Bank.
- Trimming helps control the size of big winning positions and raise some cash for diversification.
- If you sell it all, you have to try and find another successful replacement.

My History with Trimming vs Selling

- Here is a list of stocks from my personal clubs that have grown very well over time. These companies are: NKE, BDX, MCD, COST, GOOG, AAPL, ISRG, SBUX, DOCU.
- Many of these have been trimmed several times, despite having strong economic moats.

I want to own these kind of a chart.

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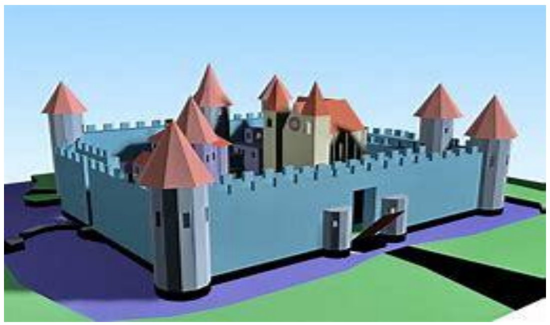
So Why Trim Versus Sell?

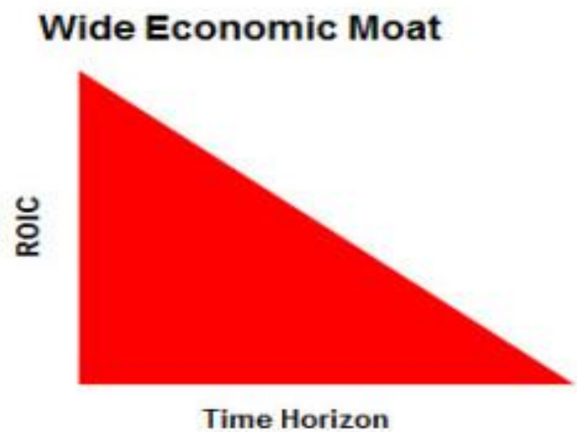
- It is my desire to own my stocks forever – as long as they are executing. Thus, I lean toward trimming vs selling.
- It seems, winners continue to win if they have a good economic moat.
- Thus, my biggest factor is whether the stock has a wide economic moat - No moat, I look to sell.
- Why? **<u>Not many long term winners vs the market. Not many wide moat stocks</u>**.
- The goal is to control the position size. Risk reduction.

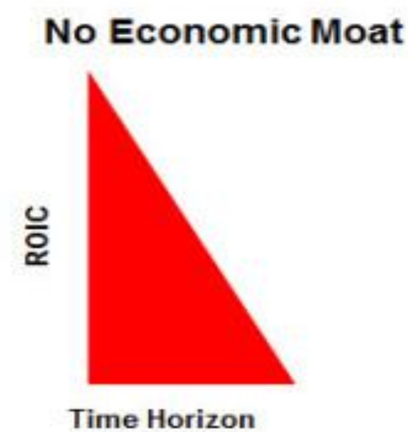
In the Long Term

- As an investor, I'm doing research to find information that confirms or denies my beliefs about a company's moat or business model.
- If it continues to execute, keep owning it!
- There are not many successful companies that last over several decades. Thus, you might have to sell.
- Economic Moats = Business Models = Strong SSG

Economic Moat Thought Process







Source: Pat Dorsey, Morningstar.

Moat Performance – Wide Moats Win

Market Performance by Moat Rating and Moat Source ■ Top Performer ■ Bottom Performer

	Number of Companies	Median Annlzd 5 Yr TR (%)	Mean Annlzd 5 Yr TR (%)	Median Annlzd 10 Yr TR (%)	Mean Annlzd 10 Yr TR (%)
Morningstar Coverage Universe	1,503	13.7	13.2	7.3	6.8

Moat Rating

	Number of Companies	Median Annlzd 5 Yr TR (%)	Mean Annlzd 5 Yr TR (%)	Median Annlzd 10 Yr TR (%)	Mean Annlzd 10 Yr TR (%)
Wide-Moat Companies	209	15.7	15.6	10.6	11.0
Narrow-Moat Companies	643	15.5	16.0	8.6	9.0
No-Moat Companies	651	10.5	9.6	3.3	2.9

Source: Morningstar Magazine, August / September 2017.

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Moat Analysis

- The potential of wide moat stocks are intriguing.
- Wide moat stocks should have higher margins over a longer timeframe.
- Why? Sustainable competitive advantage.

Moat Rating	Number of Companies	ROIC TTM (%)	ROIC Trailing 3 Yr (%)	ROIC Trailing 10 Yr (%)	Operating Margin Trailing 10 Yr (%)	Net Margin Trailing 10 Yr (%)
Wide	209	12.5	13.5	19.0	21.1	14.1
Narrow	643	9.0	9.7	14.8	14.7	9.0
None	651	5.1	4.8	8.6	7.6	4.4

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Source: Morningstar Magazine, August / September 2017.

Evaluating Management SSG Style – Narrow vs Wide Economic Moat

Evaluate Management — **Narrow Moat**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	8.1%	11.0%	12.6%	12.3%	12.7%	12.9%	13.5%	13.4%	12.8%	12.2%	13.0%	
% Return on Equity	8.7%	10.1%	12.1%	10.9%	10.8%	11.5%	14.0%	16.9%	17.7%	18.8%	15.8%	
% Debt To Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.5%	10.1%	

Evaluate Management — **Wide Moat**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	57.5%	61.6%	21.2%	61.6%	60.8%	64.8%	53.1%	63.7%	62.1%	64.8%	61.7%	
% Return on Equity	11.1%	13.0%	8.0%	17.8%	19.5%	21.9%	22.0%	24.8%	35.1%	40.1%	28.8%	
% Debt To Capital	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	32.5%	35.9%	32.8%	32.5%	26.7%	

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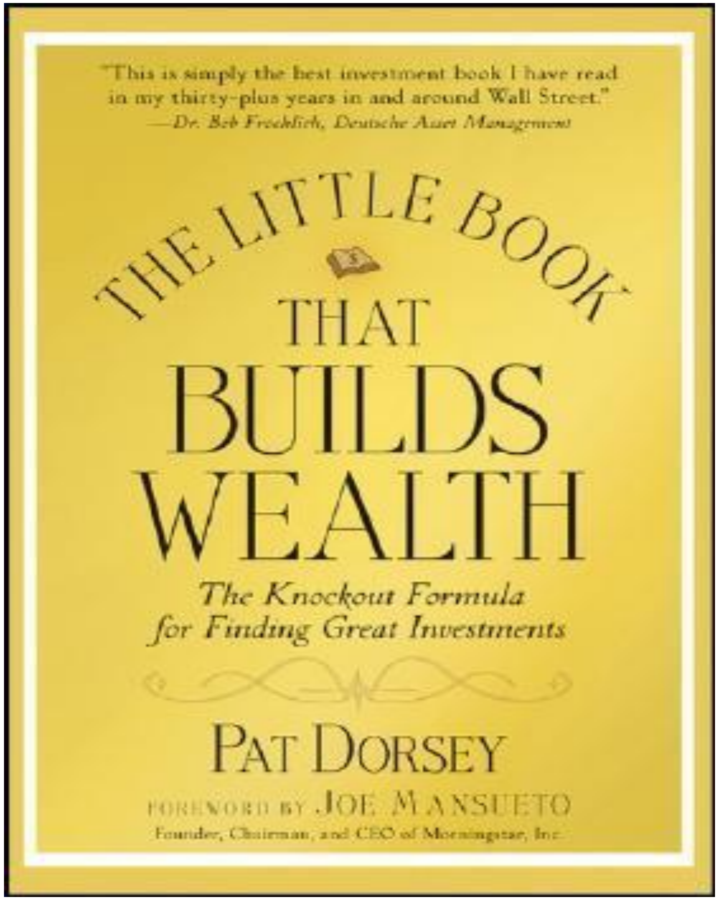
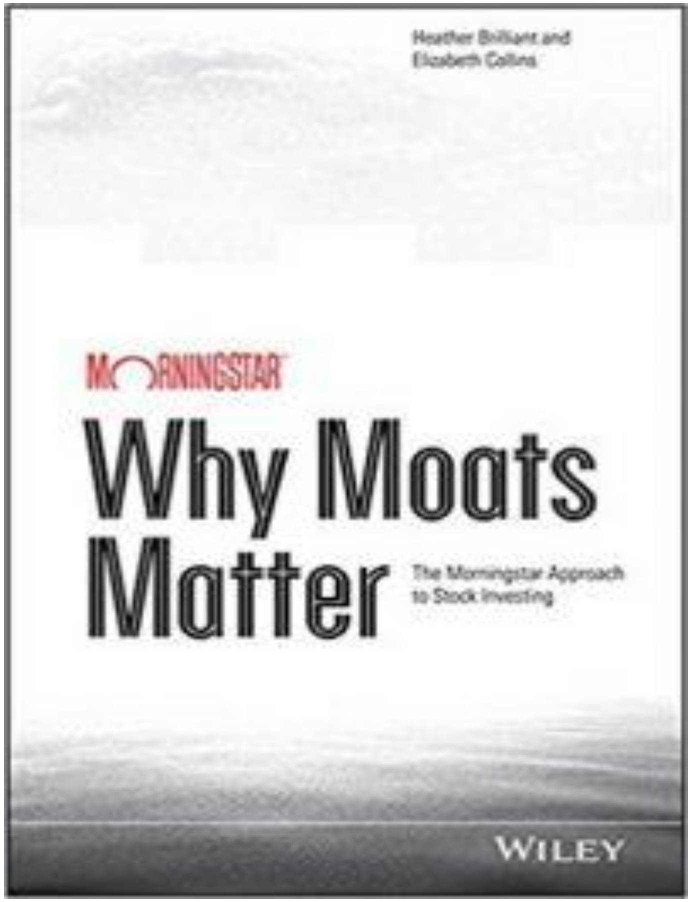
If You Want to Learn More on Economic Moats?





To obtain economic moat information – online libraries that subscribe to Morningstar or available from Schwab.

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Question Time

The Trimming Evolution

- I've been using a trimming policy since 1990.
- Theory - stocks don't move in a straight line.
- Learned this with my first club.
- Managing risk is the goal. Concern about position size.
- Buy more when cheap?
- Is this a wide moat stock?
- Again, trimming is for handling winners.

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Mechanical or Manual Process

- Manual, you select your levers each time.
- Since my goal is managing risk, I focus on portfolio weight and capital gain.
- The bigger the weight, the more often I want to trim.
- How much to trim is your choice – it could be:

  5%, 10%, 15%, 20%, 25% or more?

  I have typically used 10% or 20%.
- **I prefer mechanical, then discuss in club.**

Mechanical Trim Example

- I am **willing** to trim when a position size is greater than 2x the average portfolio weight. **Assuming I don't want to just sell it all out.**

A 15-stock portfolio = 6.67% average weight

(100% portfolio weight/15 stocks)

2x Average Weight = 13.3%.

Potentially **TRIM** if the largest weight is above 13%.

- Remember, position weights in the portfolio are relative to the performance of all of the stocks in the portfolio. **Long term – this is key.**

Combined Lever

- First lever is the stock's portfolio weight greater than 2x average portfolio weight.

AND

- Second lever says the stock has a gain of at least 60%, or you would not trim.

- You could use any percent gain and easy to do in excel. I selected 60%

Focus on wide moat stocks and hope to own forever.

The Excel Formula

	Cost per Share	Current Price	TOTAL COST / Current Value	% in Investment	% Gain/Loss	Target Price	Above Target Price	Purchase Date	Trimming Events
		INVESTMENT GROUP							
ATVI	30	95	41,994	6.5%	217%	122	no	11/11/08	Twice
GOOGL	577	2442	58,603	9.1%	323%	1478	Maybe	3/25/13	Once
AAPL	4	150	75,600	11.7%	3468%	146	yes	2/4/08	Fifth
BRKB	52	278	61,142	9.5%	430%	84	Maybe	5/21/97	
SCHW	26	73	83,732	13.0%	182%	66	yes	7/22/97	Once
ISRG	216	920	83,687	13.0%	326%	553	yes	3/21/16	Once
NKE	3	154	61,796	9.6%	5421%	18	Maybe	3/30/94	Fourth
DIS	26	176	44,294	6.9%	570%	134	Maybe	12/30/88	twice
			=========		**$67,803**				
			644,130		**11%**	2x Weight			
					5.3%	Avg. Wgt			

Source: Craig Braemer's Bullpen Club Portfolio, 6/30/2021.

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The Formula

Driven by Relative Weight and Performance

=**IF**(current price>Target Price, **IF**(% in Portfolio> 2X Avg. portfolio weight, ”Yes”, ”Maybe”),”No”)

- My definition of the target price = cost plus 60%. You could use a different number like 100% gain.

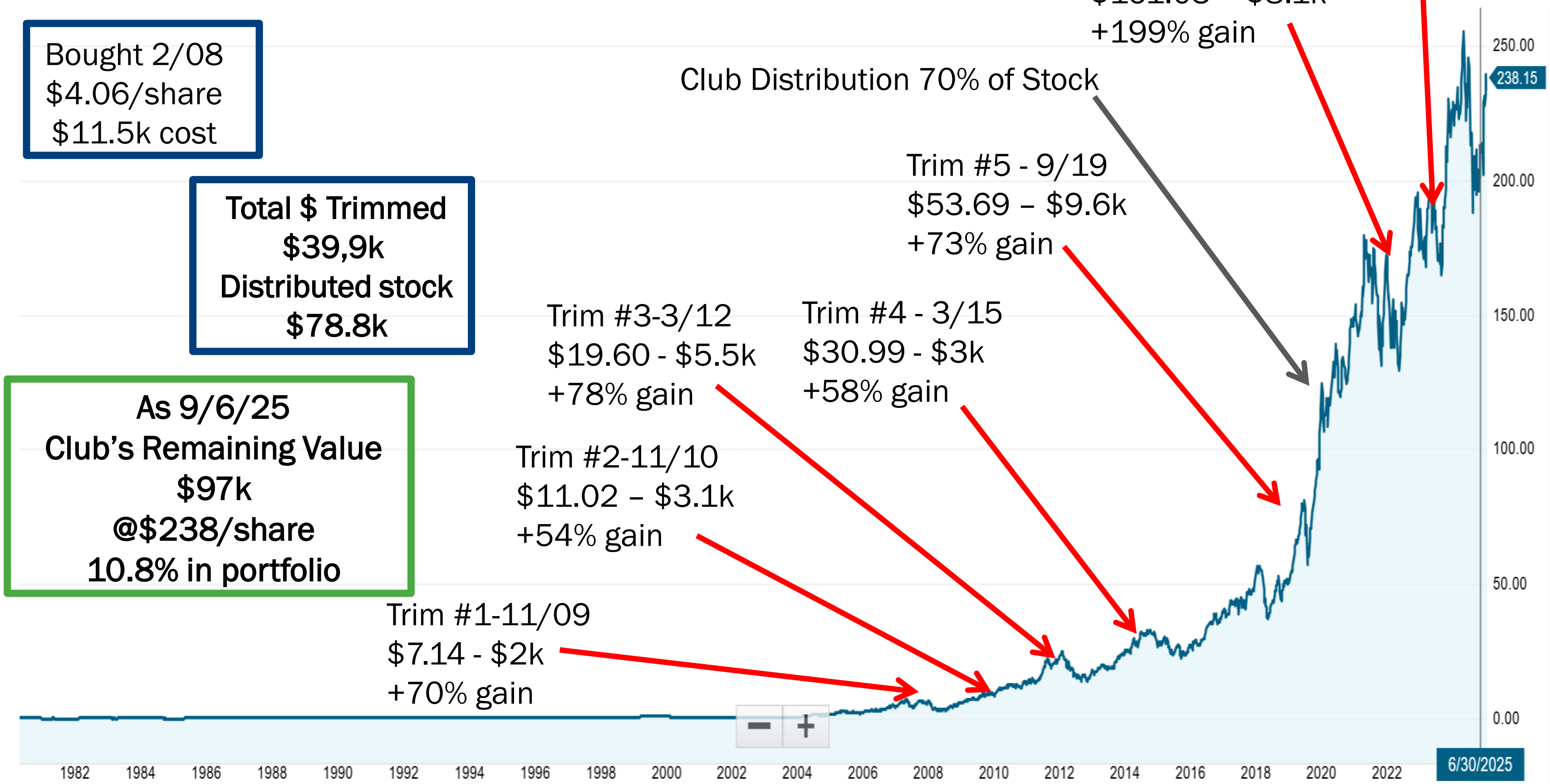
- Issue with small positions - must grow to big weights prior to trimming. Small positions don’t impact performance as much as large positions. Thus the formula isn’t going to sell these.

Example: Apple – Seven Trims + One Distribution vs Selling

Bought 2/08
$4.06/share
$11.5k cost

Total $ Trimmed
$39,9k
Distributed stock
$78.8k

As 9/6/25
Club's Remaining Value
$97k
@$238/share
10.8% in portfolio



Source: harles Schwab pricing , 9/16/2025.

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How Much Should You Trim?

- It is your choice, but I recommend 10% and 20%.
- Big enough to reduce the weight to be able to capture long term returns.
- ***The long term debate is:*** *Great long term potential* ***vs*** *taking some money off the table.*
  - **This is the discussion with our mechanical system.**
- Every trim done, runs the risk of missing out and just selling everything at the peak.
- **Easier to sell small amounts. Less stress.**
- **As we saw earlier, it is tough to identify the peak.**

I Think Trimming Works, But can I Own My Stocks Forever?

- I would like to own my stocks forever.

Focus on the strength of the economic moat. SSG Sections 1 & 2 are good at analyzing economic moats.

- We only own 10-25 great stocks – we have a big advantage to be selective.
- However, forever isn't realistic. At some point, some stocks will have to be sold. Most leaders don't stay at the top forever.

Top Market Cap Stocks per Decade

@CharlieBilello **Largest Companies Globally by Market Cap (1980 - 2018)**

Rank	1980	1990	2000	2010	2018
1	IBM	Nippon Telegraph & Telephone	Microsoft	PetroChina	Apple
2	AT&T	Bank of Tokyo-Mitsubishi	General Electric	Exxon Mobil	Amazon
3	Exxon	Industrial Bank of Japan	NTT DoCoMo	Microsoft	Microsoft
4	Standard Oil	Sumitomo Mitsui Banking	Cisco	ICBC	Alphabet
5	Schlumberger	Toyota Motors	Walmart	Walmart	Berkshire Hathaway
6	Shell	Fuji Bank	Intel	China Construction Bank	Facebook
7	Mobil	Dai-Ichi Kangyo Bank	Nippon Telegraph & Telephone	BHP Billiton	Alibaba
8	Atlantic Richfield	IBM	Exxon Mobil	HSBC	Tencent
9	General Electric	UFJ Bank	Lucent	Petrobras	JPMorgan Chase
10	Eastman Kodak	Exxon	Deutsche Telecom	Apple	Johnson & Johnson

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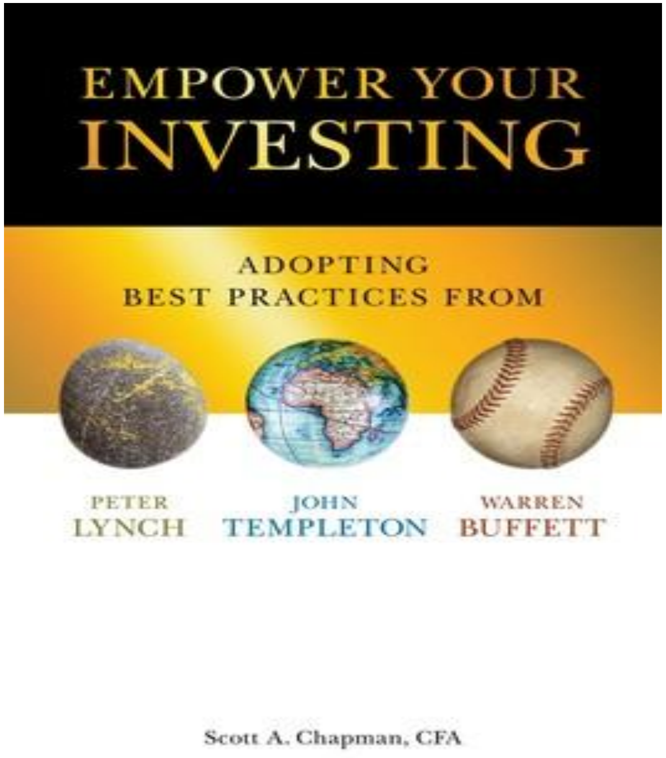
Leaders Do Not Stay on Top Forever

- Valuation is not my primary reason to trim.
- Managing risk is the goal.
- Pulling some money out to diversify might allow you to find your next big winner.
- “Remember to weed your garden” or “Letting my winners run!”
- Is this stock a wide moat?
- I’ve used this book as a framework for how I invest.



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Summary

- Trimming should help let your winners run and control your position size. This has helped me hold on to great long-term winners. I call this process - Buy & Manage.
- Sell when you think the future is poor. Remember, not all stocks will win over the long term. Selling is tough!
- Of course, you can't only buy winners. Get used to selling losers. It is a normal course of investing.
- Trimming doesn't identify when to sell.
- Wide Economic Moats or "Quality from the SSG" stocks help identify good business models for the long term.

Question or Comments?

Trim or Sell? Which Is Better for Your Portfolio?

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