Money & BUSINESS

Star Tribune www.startribune.com Sunday, March 14, 2004

As market rises and falls, selling a stock is tough

The stock market's four-day drop last week wasn't large compared with the continual drubbings of a few years ago, but the Dow's 467-point dip was enough to make many investors think about selling while they still have profits from the yearlong rally.

There was probably a lot more thinking than actual selling.

"It's easy to buy," said Richard W. Perkins, who runs a pair of small-cap mutual funds at Perkins Capital Management in Wayzata. "Selling is tough."

Perkins, or "Perk" as he's known, doesn't have to look any further than his own funds to be reminded why selling is important.

Small-cap funds, which typically invest in companies that have market values of less than $100 million, are known for having market-leading returns one year and poor returns the next.

But with his two funds, Perkins Discovery and the Perkins Opportunity, Perk experienced both ends of the spectrum in the same year.

While the average small-cap fund gained 40 to 45 percent last year, the Discovery fund returned 67.9 percent. The Opportunity fund lost 6.0 percent.

Opportunity got knocked because it had a big holding, Insignia Systems, that suffered a big loss.

Perkins started buying shares of Maple Grove-based Insignia in 1999 for $1 a share. He added a lot more at $2.

Insignia seemed to have immunity from the bear

While the bear market was just beginning for most stocks in 2000, Insignia, which makes in-store promotional materials for retailers, rose above $11 in 2002. Opportunity easily outperformed its peers.

"It got to the point where it was way too big – 28 percent of the fund – and we sold a little," Perkins said.

At the Market

INVESTING COLUMN

by Mike Blahnik
Star Tribune Staff Writer

But not much.

"A lot of money managers, when a position gets above a certain level, they automatically cut it back," said Perkins, who manages about $300 million. "If you buy a 5 percent position and that position grows to 10 percent, you cut it back to 5, or some formula like that.

"I've never believed in that… simply because it got to be where it is because it was doing so well, so something is happening. It just seems too simplistic to cut them back. If they're working, I let them ride. And Insignia was working"

Then in early 2003, seemingly faster than you can say "diversification and risk management," Insignia shares crashed to $4.

"All of a sudden things didn't go so well," Perkins said. "We said, 'Oops, we should have sold more.'… Then when you see your profits evaporate, you tend not to want to [sell], it's just human nature."

Insignia, now below $2, is still Opportunity's largest holding. A close second is Regis Corp., the Edina-based hair-care Giant, whose shares have nearly tripled from the $15 level at which Perkins bought in 2000 and 2001. The Opportunity fund has sold about a quarter of its Regis stock, but it still represents 10 percent of the portfolio.

Last week, Perkins bought Wilsons the Leather Experts at around $3. In June 2000, he sold Wilsons at $14.40.

"One reason for selling a stock is if it has reached your price target, and it just doesn't look like there's any room left in the stock and it's been so popular that it seems that all the people who are going to buy the stock have already bought it," Perkins said.

"The other time to sell is, when things fundamentally change for the worse, or the company doesn't reach your expectations, and that's what was going on with Wilson's."

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Another way to determine a selling point is to set a "stop loss" level, that allows for continued gains until a stock price begins falling. The selling level can be set at either a certain percentage below a stock's high point (say 10 percent) or a specified price (for instance, selling Imclone shares if they fall below $60).

Some professionals advise selling a stock after a certain percentage gain ("there's never a bad time to take a profit"), but Perkins and many others say that's only a way to ensure that you don't have any huge winners.

And there's another reason Perkins isn't quick to sell: "When you sell, you stand the risk of making two mistakes. One, maybe what you're selling goes up and you shouldn't have sold. Two, what you buy might not turn out to be what you thought it was going to be, and it goes down.

"So you really need to think hard about why you're selling something."