Bought a stock that isn't moving? Hold if your thesis holds

In the process, several investors ignore the business fundamentals of the company behind the stock, and focus on "what is going to move up the fastest" This chain of events, unfortunately, has happened too many times for us to dismiss with the phrase "this time, things are different".

By EA Sundaram,
Executive Director & CIO – Equities,
DHFL Pramerica Asset Managers Pvt. Ltd.
published on moneycontrol.com

"In the world of investing, being correct about something isn't at all synonymous with being proved correct right away" - Howard Marks

One of the most important things in investing is to stay the course after choosing to invest in a particular company's stock.

But this simple-sounding principle is often very difficult to practice, especially when the stock price does not appreciate immediately after we have bought it!!

If a stock price does not move up within a few days of purchase, many investors get fidgety and begin to think that they have made a mistake by buying the stock.

Worse, they sell a perfectly good stock just because it hasn't moved the way *they wanted it to move,* and get into some other stock in the hope that the second one will move up immediately after purchase.

In the process, several investors ignore the business fundamentals of the company behind the stock, and focus on "what is going to move up the fastest".

This chain of events, unfortunately, has happened too many times for us to dismiss with the phrase "this time, things are different". Let us not forget for a moment - there is no rule, either man-made or divine, that says that a stock should move up immediately after we have purchased it.

There are some examples of some perfectly good companies, whose stocks did not move for several years, but once they moved, moved dramatically like Bharat Electronics Limited, TTK Prestige, Eicher Motors to name a few.

From the above, the conclusions that we can draw as investors?

(1) The movement of a stock price does not go according to the calendar.

(2) It is much better to focus on "why" a stock should move rather than "when" it will move

(3) After buying a stock after reasonable research, just hold on to it if the original assumptions with which it was bought have not changed.

(4) Switch from one stock to another only if the new purchase is having superior fundamentals and/or is available at a better price, and NOT BECAUSE IT SEEMS LIKELY TO MOVE UP FASTER.

Two Essential Ingredients of Investing to Yield Best Results

Two essential ingredients of investing are (a) proper analysis and (b) having a proper temperament.

Both are important, but it is unfortunate that the latter part i.e., acquiring a proper temperament for investing, does not get the importance or prominence it deserves.

What does a proper temperament mean?

It means the equanimity to remain calm when there is panic all around. It means the confidence to buy when stocks are unpopular. It means the discipline to stick to quality even when it seems too easy to make money on the stock market.

Is it possible for anyone to know everything about all companies in the market? Is it possible for anyone to predict all economic and financial events with precision, given that there are thousands of variables that control each one of them?

Part of acquiring a proper temperament is in knowing the limits to our own knowledge. If we accept that we don't know everything, then the next step is in restricting the investments into businesses that we understand reasonably well.

The next step is in restricting the choice of companies that meet the needs of the logical investment philosophy and process that we have evolved for ourselves. Finally, it means rigorously sticking to the same philosophy and process, even if it does not work all the time.

Practiced over a period of time, such a disciplined investment process will yield good results.