Stocks Are at Record Highs. Is It Time to Sell?

With U.S. stock indexes in record territory, many investors are wondering if it's time to sell. But trying to time the market is a guessing game, and selling decisions should be driven by factors other than a market read.

As of November 30, 2019, the S&P 500 had gained over 25% for the year, its strongest performance since 2013.

Buy low. Sell high. That's been investors' mantra from time immemorial. And lately, with U.S. stock indexes hitting new peaks daily, many are wondering if it's time to sell. In fact, stocks have been on a tear, with the S&P 500 gaining 8% between early October and the end of November, and up over 25% since January 1. That works out to be the best performance since 2013.[1]

But buying or selling a stock is not about what has already happened. It's about expectations of what may happen in the future. Right now, that future looks good. The U.S. economy is booming, corporate earnings are strong, consumer spending is robust, and inflation remains low. Most recently, the Federal Reserve's third interest rate cut and the hope of an imminent agreement in the trade war have helped to ward off fears of a recession in 2020.

Despite this seemingly rosy outlook, however, worries do remain. In fact, there's a minefield of potential shocks that could spook markets. Stalled trade negotiations, a no-deal Brexit, developments in Iran, the impeachment hearings, and a presidential election battle that promises to get ugly -- all pose possible jolts that could derail the current rally. There is also the fact that the current bull market is long in the tooth -- at over 10 years, it's well beyond the average life expectancy of historical bull runs. Even the most ardent bulls remain cautious. "It's a nervous market," notes Howard Silverblatt, senior analyst at S&P Dow Jones Indices. "Everyone is talking a great ballgame, but when you come down to it, everyone has their finger just over the sell button."

Selling for the Right Reasons

For individual investors, any decision to push that sell button should be driven by much more than a market read. In fact, as study after study has shown, trying to time the market is a losing game. Even if you do manage to time your sale at or near a high point, you'll eventually need to decide when to get back in. By the time you realize stocks are on an upswing again, you may miss out on the market's greatest gains, which often come in the early stages of the cycle.

Instead of trying to time the market, you may be better off with a well-coordinated investment strategy that is based on your particular needs and circumstances.

Consider these personal reasons for selling:

You need the cash. If you need to liquidate investments to provide income or fund a purchase, you'll want to choose wisely, factoring in tax and other considerations. An investment advisor can suggest which investments may be best to sell first.

Your goals change. Getting married? Having a child? As your life changes, so too should your investment makeup. That may require selling some securities or reinvesting in others.

Your time horizon changes. You may want to consider selling some riskier investments as you approach retirement. Adding more conservative investments can help preserve your portfolio.

Your risk tolerance changes. It's not unusual for feelings about risk to evolve over time. For example, you may want to take more risk with your investments if you're not accumulating enough money to reach your goals. On the other hand, market volatility and fluctuations in your portfolio's value may lower your ability to tolerate risk. Selling some investments and buying others may help you achieve the right balance between risk and potential reward.

You need to rebalance. You chose your portfolio's asset mix to reflect your goals, risk tolerance, and time frame. But significant changes in one asset class may cause your allocation to shift, exposing your portfolio to more or less risk than you want. Rebalancing by selling investments that have increased in value is one way to bring your asset mix back in line.[1]

Whichever way stocks head in the coming year, just make sure that you base any decision to sell or stay put on your personal reasons. You'll also want to consider taxes and other factors. A financial professional can help you choose the best approach for your circumstances.

[1]Source: Google Finance.