

## Breaking Up is Hard to Do

In his 1962 classic song, "Breaking Up Is Hard To Do," Neil Sedaka was likely thinking of personal relationships, rather than stocks. Nevertheless, he captures the essence of the most challenging problem with which investors must contend—the sale of a stock. Most stock market participants can wax poetic about the stocks they buy; very few can do the same about their sales. The cardinal mistake is becoming attached to your stocks. Some investors are more married to their stocks than to their spouses.

*Don't take your love away from me  
Don't you leave my heart in misery  
If you go then I'll be blue  
'Cause breaking up is hard to do*

Some stocks perform so well that investors fall in love with them and cannot imagine parting with them. But, such stocks become over-weighted issues in the portfolio. In this instance, it is not an all or nothing sell decision. We simply pare back the stock position enough to rebalance the weightings of the securities in the portfolio. We do not want to be over exposed to one or two securities if the unexpected were to happen, e.g. an Enron-like collapse.

*Think of all that we've been through  
Breaking Up Is Hard To Do*

We may pick a stock that performs as well as, or perhaps better than, we anticipated. Our reasons for selecting

the stock have played out perfectly. Over time we have been amply rewarded with the stock's overall returns. And like good investors we try to let our winners run. While we certainly appreciate those stocks that outperform, when it becomes overpriced, that is to say the company's underlying fundamentals cannot support such a stock valuation, it is a signal to sell. And while we are mindful of tax implications, we do not let them drive our investment decisions. No matter the timeframe with which we have held the stock or how well it has performed, there will likely be a time when it is prudent to sell.

*Don't say that this is the end  
Instead of breaking up I wish that we were  
making up again*

Many investors have difficulty acknowledging mistakes. They will rationalize all types of scenarios for a stock to make a comeback from a drop in price and will hold on to the bitter end. No one is perfect. Sometimes after purchasing a stock, we discover information that was not incorporated into the analysis, or something fundamental changes in the company. Perhaps the initial analysis and evaluation of the stock was simply wrong, and the bright prospects for this stock no longer exist. Then it is time to cut our losses, make a clean break, and sell.



Lehrer Management Co., Inc.  
20380 Town Center Lane  
Suite 120  
Cupertino, CA 95014  
P:(408)996-3390  
F:(408)996-9374

lmcinfo@  
lehrermanagement.com



*I beg of you, don't say goodbye  
Can't we give our love another try  
Come on baby, let's start a new  
'Cause breaking up is hard to do*

The sale of a stock does not necessarily mean that it will never be repurchased. A stock may be sold to raise cash for more compelling opportunities, for the other reasons mentioned above, or for quality of life needs. Also, we may have been too early in identifying and selecting the security and its stock price has been stagnant or is declining. Later, that same stock could rekindle our interest due to a lower valuation or a positive corporate change. The goal for successful investing is to buy low and sell high, and to do that repeatedly. It may occur with dozens of stocks and also with the same stock at different times.

We strive to maintain sell disciplines in our management of portfolios. However, each sell decision depends on the circumstances of the individual and his/her portfolio. We always keep in mind that the ultimate goal of successful investing is to make money for you to spend and enjoy. Our sell decisions, therefore, are just as important as are buy decisions, and we devote the same studied approach to both.

### **Other News**

We would like to announce the two latest additions to the Lehrer Management team – Charlene Street and Sophia Doss. Charlene is a Registered Investment Associate, and comes to us with over 25 years of experience in the securities industry. Charlene passed the Series 7 exam in June of 1999 and the Series 65 exam in August of 2001. Sophia, a recent graduate from San Jose State University with a degree in Finance, will be taking over for Irena Pesic. Irena, who is currently working towards her MBA at San Jose State

University, is traveling to Thailand for a summer study abroad program.

Jonathan Riley, after months of studying and preparation, took the CFA Level II exam this past weekend. He will not receive his results for another 3 months, but we wish him the best of luck.

We would like to congratulate Michelle Graham for being accepted to the San Jose State University MBA program. Michelle will be starting the program in August and she will continue to work for LMC, while taking classes at night.

We would also like to announce the launching of our new website. The site was officially launched on May 24th and it can be viewed at [www.lehrermanagement.com](http://www.lehrermanagement.com). We encourage you to visit the site and if you know of anyone that may be interested in the services offered by LMC please refer them to the site as well.

The information and opinions in this newsletter were prepared by Lehrer Management, Inc. These materials are for general information only, and are not suitable for all individuals. Market conditions are subject to change without notice and therefore market trends and opinions change.

Prepared by Lehrer Management Co., Inc.,  
June 2004