

In investing, one of the most important skills is knowing when to sell. Ironically, the most successful strategies often live at opposite ends of the spectrum: either cutting your losses quickly or having nearly infinite patience. Getting stuck in between is a recipe for disaster.

When a company's fundamentals deteriorate through poor strategy, management mistakes or emerging competition, selling quickly is one option. This is the "short leash" approach. Holding on to a business because of sunk costs, pride or fear of realizing a loss only compounds the initial mistake. The market is unforgiving toward companies that no longer execute and the ability to change your mind quickly when the thesis breaks is what separates thoughtful investors from those who ride stocks into the ground. When a company stops being what you bought, it is time to walk away.

On the other end of the spectrum is adopting extreme patience. If you own a durable business and trust management to allocate capital intelligently, the best move is often to do nothing. While drawdowns are inevitable and painful, these companies are built to weather recessions, bear markets and competitive threats. You must be mentally and emotionally prepared to hold through it all. The biggest mistake investors make with great companies is selling too early and the power of compounding only reveals itself after six or seven years of uninterrupted ownership. You have to commit to stomaching the volatility and discomfort.

The real danger lies in the middle. Investors who lack the conviction to hold during difficult periods but also fail to cut their bait early capitulate at precisely the wrong time. Vulnerable to market noise and emotional decision-making, they capture the downside while missing the rebounds that drive long-term returns. As Fred Kittler said, "The market always trades to inflict the maximum amount of pain."

Ultimately, investing rewards simplicity and discipline. Either be quick to sell or be unwavering in your conviction. The middle ground is where returns go to die.