

The Life-Changing Magic of Tidying Up Your Portfolio

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By Linda McDonough (bio at end)
February 6, 2019

The NYT bestseller list included Marie Kondo's book *The Life-Changing Magic of Tidying Up* for over 140 weeks. The frenzied popularity of the book inspired a new Netflix series aptly named "Tidying Up with Marie Kondo." The show aired in January, just in time to engage all those with the said chore on their New Year's resolution list.

The irony of adding another item (a new book) to your pile of clutter to banish that clutter is not lost on me. However, I am using some of Marie's pointers to tidy up my portfolio.

With the stock market up 8% in January and up 16% since the December low, it is a great time to revisit the stocks in your portfolio. Usually, the worst time to sell an asset is in the midst of an emotional sell-off. Most professionals advise that, unless you need the cash right away, it is best to wait to sell stocks during a volatile downturn.

Now that most market sectors have regained some footing, it is a good time to re-evaluate your positions. There are likely some clunkers in your portfolio that you wished you had sold earlier when the market headed south.

How to Streamline Your Portfolio

Here is how to use six major aspects of Marie Kondo's tidying up list on your portfolio:

1. Tackle Categories Not Rooms

Think of categories as the asset classes that you own. Reviewing each category or asset class helps you evaluate your risk tolerance. The dramatic December slide in the market tested the stomach of many an investor. How you handled that volatility is an indication of what asset class you might want to pare or bulk up on.

2. Respect Your Belongings

Just because a stock or a group of stocks fell harder than others, it does not mean you should toss them to the curb. Many high-quality stocks with terrific management teams and a stellar earnings record fell significantly during the slide. Respect and evaluate each stock on its own merits. How strong is its balance sheet? Is it generating steady cash flow? Is it able to grow earnings and is that growth necessary to get the stock back up to your target level?

3. Nostalgia Is Not Your Friend

You might have made a fortune in electric carmaker Tesla last year and maybe you are in line for its newest Model 3. But don't get married to a stock just because it was super profitable in the past. Stocks are living breathing entities whose value fluctuates based on future prospects. Don't get nostalgic and forget to re-evaluate the changing dynamics for a stock or its industry.

4. Purging Feels So Good

This one could not be truer. Once you clear out the questionable holdings in your portfolio, there should be a good supply of cash available to invest in new ideas. While I don't recommend tossing out all your stocks and buying new ones, the constant pruning, and replanting of new investments will keep your portfolio fresh.

5. Fall In Love With Your Closet

Give your new stocks some time to settle in. I always recommend dollar-cost averaging or buying your predetermined dollar value of the stock over a more extended period. You might choose to average in over a week or a month or several months, depending on your risk profile. However, after whittling down the positions that made you flinch and adding those in which you have more confidence, you will fall in love with your portfolio.

6. Rediscover Your Style

Keep re-evaluating your portfolio. What stocks worked? Which ones didn't? Most importantly, why? Sometimes it is just a market squall that sends a stock spiraling. Other times it is a one-time blip in earnings. Worst case scenario, you were simply wrong (it happens, believe me!) and you start anew. Either way, you will soon discover what stocks or assets you have the most success choosing.

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About the Analyst



Linda McDonough is a veteran hedge fund analyst who loves to break down company financial statements and identify market inefficiencies to uncover big opportunities. She believes in a boots-on-the-ground approach that includes surveying customers, interviewing company executives, or doing whatever it takes to see what others don't. She's now brought her experience as a hedge fund analyst to subscribers of her *Profit Catalyst Alert* service. Her system identifies small- and mid-cap stocks that are about to move due to catalytic events that few others can identify...until it's too late. These events often times result in massive gains for her followers.