

## Should I Stay or Should I Go Now?

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"Should I stay or should I go now?  
If I go there will be trouble  
And if I stay it will be double."  
– The Clash

**I've been part of an online community of entrepreneurs for the past few years.** It's an informal group, the purpose of which is to share information, ideas and encouragement. This past Monday, on the invitation of Internet Maven [Havi Brooks](#), I helped lead a teleclass for the group on "cutting your losses."

**I don't mind telling you, I wasn't so sure at first what I brought to the party.**

Investment insights?... I'm your girl. But "cutting your losses?" That struck me as too far afield from the sweet spot of my expertise.

That is, until it dawned on me that **all the years I've spent in the investment trenches have taught me quite a bit about knowing when to call it quits** — much of which, interestingly enough, is diametrically opposed to our hard-wired nature:

- **Humans are loss-averse.** Countless studies ([here's one example](#)) have shown that even when the odds are identical, we are more conservative when the risks are framed in terms of losses than in terms of wins. Our brains don't want us to lose *anything* (even if it's a problem), and in our hearts, we are all hoarders.
- **Humans need to be consistent.** In order to develop a healthy sense of self and identity, not to mention maintain our sanity, we are driven to take action consistent with self-perception. That makes it especially hard to change course once we've committed ourselves.
- **Humans don't like to admit mistakes.** "Cutting our losses" means accepting that we were wrong, a realization that for many of us perfectionists can be painful. We'd rather maintain the fiction of a mistake-proof existence by keeping a bad decision on life support and refusing to let go.



- **Western culture in particular** – from *The Little Engine That Could* to Winston Churchill (e.g., "Never give in, never give in, never, never, never, never-in nothing, great or small, large or petty – never give in.") – **equates quitters with losers.**

In my case, on the other hand, and thanks to enduring 25 years of seeing my mistakes calculated in real time and to the penny, **I've evolved into a proud and well-documented quitter**; there's a benefit to not waiting in vain for the fix-it fairy to show up.

And so with that in mind, **I now share with you my "4 Lessons for Cutting Losses in Life That I Learned as a Portfolio Manager":**

1. **Expect to make at least three mistakes every day.** The goal in investing is not to avoid mistakes... it's to pick more winners than losers and to make sure the winners benefit you more than your losers cost. It's the same in life.

If you deliberately anticipate multiple mistakes every day, you'll see that **they soon lose their sting and have little impact on your self-esteem.** When you can eye your mistakes dispassionately, you'll have a better hit rate in deciding whether to quit or persevere.

2. **Plan your exit strategy on the way in.** Anytime you have a high-stakes decision to make – and *before* you take the leap – take the time to map out a possible range of outcomes and the milestones along the way which will cause you to take action.

In the case of our holdings, for example, **we list what we expect to happen over a specified period of time and map out the best, worst and most likely cases.** We do this before we're emotionally invested in a position, a discipline which helps to clarify when and under what circumstances it's time to walk away.

Just sitting down and asking yourself, "How will I know this is a mistake?" will mean that you won't bankrupt yourself while trying to show the world you're infallible.

3. **Check your shining armor at the door.** Many of us like to star in the soap opera that is our life; we feel most alive when there's a dragon to be slain (even if it's of our own creation). **After all, killing a monster is a lot sexier and more exhilarating than cultivating a garden.**

But we've learned the hard way that a position that requires too much energy-where there's so much data drama that you can't clearly see what's at stake – is the one that will bury you. You can't make a good decision if you're caught in an emotional maelstrom. **For us, a lack of clarity about what we don't know equals a sell decision.**



4. **Don't let your past drive your future.** Regardless of how you may feel about money, it has no emotional relationship with you. Money already spent is a sunk cost and you need to keep its weight from sinking you.

Every day we look at our portfolio of stocks and pretend not to know how much we paid for them. Because the fact is, it doesn't matter whether we're underwater or sitting on a tidy profit. **The only relevant question is, "Do we want to own these at *this* price?"**

We can't let protecting our egos get in the way of preventing our clients from losing more money. All decisions – life, business or investing – should only take into account *future* costs and benefits.

Maybe, after all, I'm less of a masochist than I think. **Stockpicking forces you to eat large doses of humble pie, but it also turns out to be a pretty good diet for the soul.** And while I make just as many mistakes in life as anyone else, I'm able to cut my losses and move on a lot faster, thanks to all that practice I've had.

When you're banging your head against the bricks of life, from romance to business, knowing when to get out is at least as important as knowing when to get in.

### **Speaking of "Should I Stay or Should I Go"**

[Click here](#) if you are interested in reading just why some investors tend to hang on to their losers longer than they should. Michael Ervolini ([Cabot Research](#)) says that "people derive more pleasure from buying than from selling."

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