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6 Stocks to Sell Now?

These companies, including a muni-bond insurer and the retailer launching the "Kardashian Collection," have one thing in common -- their stocks look ripe for a fall.

By Kathy Kristof

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Even Warren Buffett makes mistakes. The legendary investor and chairman of Berkshire Hathaway says he likes to invest in good companies and hold them "forever." And yet if you peruse securities filings, you'll occasionally see Buffett quietly unloading shares, as he did recently with his position in Moody's Investor Service (symbol [MCO](#)).

Knowing when to sell can mean the difference between selling high and riding a stock down the road to oblivion. And yet many people can't pull the trigger because they get emotionally tied to their winners -- and hate to admit that their losers might have been a mistake. "Most people lose money because they refuse to sell," says William Fleckenstein, a Seattle hedge-fund manager. "They have no trouble buying. They have trouble ringing the cash register at the end." (See [How Poker Can Make You a Better Investor](#) for more about why investors hold on to losers.)

There are three good reasons to sell a stock:

- **Confusion.** Maybe you bought a "hot" stock on a tip, but now realize that its "cloud-computing" business has left you in a fog. This is the equivalent of investing blindfolded. If you have no way of evaluating whether the investment is good, bad or indifferent, get out.
- **Change.** Things change, and not always for the better. When new management, new competition or marketplace shifts change the outlook for the worse, put your money where the prospects are better.
- **Mania.** Even great companies are sometimes bad buys. That's because the share price can get well ahead of fundamental measures of value, such as profits or the value of a company's assets. You don't ever want to fall in love with a stock just because it's performed well. That sort of love never lasts.

Indeed, some investors make a good living looking for love stories that are about to wilt. That's because hot stocks attract momentum investors -- people who pay less attention to fundamental value than to the way the wind is blowing, says Ryan Bend, a co-manager of Federated Prudent Bear Fund.

Among its strategies, Prudent Bear looks to profit from falling share prices by selling short story stocks right before notoriously fickle momentum investors see that the wind has shifted and speed out as fast as they piled in. "After the momentum investors have had their fun and we start to see some chinks in the armor -- for example, a company misses an earnings target or isn't growing at a pace that justifies a high price-earnings ratio -- there's almost no bottom."

Which stocks fit one or more of these criteria today? We ran some screens and talked to analysts and experts to find six stocks that are ready to topple. If you own them, consider selling. If you don't, avoid them. (All share prices and related numbers are through January 24.)

Bebe Stores ([BEBE](#))

Most luxury retailers suffer in a weak economy. But it's not just the anemic recovery that prompts analyst Brian Sozzi, of Wall Street Strategies, a stock research firm, to recommend selling the shares of Bebe Stores. He says that the quality of Bebe's merchandise is poor and that the firm's management team has been changing faster than its customers change their wardrobes.

Bebe has also been slashing prices -- not good for profit margins -- and still can't seem to produce solid sales. Profits, if and when they arrive, are likely to be negligible -- analysts estimate 4 cents per share for the fiscal year that ends this June. Sales, meanwhile, fell 2% from the year-earlier period in Bebe's second fiscal quarter, and analysts expect them to fall 7% for the full year.

The stock, which sold for \$30 in 2005, now trades at \$5.90. And if that weren't enough, insiders -- the people who presumably know Bebe best -- have been heavy sellers of the shares over the past year.

Salesforce.com ([CRM](#))

This company has strong managers, is in a hot sector -- "cloud computing," a method of managing vast amounts of data -- and has a seemingly unstoppable stock. Since November 2008, the shares have jumped sixfold, to \$127.83.

But the company's latest financial statements show costs rising and growth slowing. Analysts, on average, expect earnings to rise 18%, to \$1.38 per share, in the fiscal year that ends in January 2012. For a standard company, that's good. But it's not the kind of growth that will keep investors swooning for long, says David Brady, of Brady Investment Counsel, a Geneva, Ill., money-management firm. The stock sells at 93 times estimated earnings. Good company, says Brady. Bad price.

Stericycle ([SRCL](#))

Stericycle cashes in on the unpleasant business of collecting medical waste from doctors' offices. The firm has grown rapidly, in part by buying out rivals, and now commands 11% of the medical-waste market. The stock, which traded at less than \$2.50 per share in 1999 (adjusted for splits), today fetches \$80.27. At that price, Stericycle trades at 29 times estimated 2011 earnings of \$2.76 per share.

But with annual revenues now at \$1.4 billion, it will become increasingly difficult for Stericycle to maintain its previous growth rate. Brady expects earnings to grow at a fairly tepid annual rate of 6%

to 8% over the next few years. That's too slow to justify the current price. "Stericycle is a victim of its own success," Brady says. "We just don't think there's enough inherent growth to support that enormous stock price."

Sears Holdings ([SHLD](#))

Shares of Sears Holdings soared beyond \$100 a year ago, when the company announced that it would exceed its earnings targets. But the promise of fast-rising sales and earnings didn't pan out, and the stock now trades at \$75.15. The company recently reported that December same-store sales -- sales at stores open at least a year -- at its Sears unit were down from the same month a year earlier.

Now Sears is teaming up with the famous-for-being-famous Kardashian sisters to launch the Kardashian Kollection, a move some analysts consider almost as boneheaded as the short-lived Kardashian credit card. "Sears has probably done everything wrong that you could possibly do in retailing," says analyst Sozzi. "How much is its core business improving? I don't think it's much." Analysts expect Sears's earnings to fall 21%, to \$ 1.01 per share, in the fiscal year that ends in January 2012. The stock sells at a lofty 74 times that estimate.

MBIA ([MBI](#))

This concern is a classic case of being in the wrong business at the wrong time. The Armonk, N.Y., company sells insurance that backs municipal bonds and mortgage-backed securities -- markets that have been crushed in recent years.

In 2007 and 2008, the company lost an astounding \$4.5 billion, the result of having to pay off holders of insured mortgage securities and having to boost reserves for future losses. In 2009, the company broke off its municipal-bond-insurance business from the more-troubled structured finance operations. As part of the restructuring, the firm transferred some \$5 billion in cash and securities to the muni-insurance unit. That prompted banks whose loans and securities were backed by MBIA to sue, saying the transaction left their securities with little to back them. The stock got a boost when a judge recently dismissed the banks' lawsuit.

The shares, at \$12.27, have quintupled since the stock market bottomed in March 2009, although they remain more than 80% below where they were in early 2007. Analysts estimate that MBIA lost \$1.75 per share, or about \$350 million, in 2010, and forecast a loss of 3 cents a share this year.

Affymetrix ([AFFX](#))

This company manufactures genetic-testing tools -- a business with fast-evolving technology and even faster-growing competition. Worse, new competitors appear to be introducing better products with lower prices, which could further eat away at Affymetrix's business and profit margins. Analysts estimate that Affymetrix, which reports year-end results on February 2, lost 13 cents a share in 2010 and project that the Santa Clara, Cal., company will just break even in 2011.

Affymetrix's once-high-flying shares traded at more than \$160 in early 2000 (adjusted for a split) but now go for just \$5.08. Barclays Capital analyst C. Anthony Butler recently downgraded his rating on

Affymetrix to "underweight" (a euphemism for sell) and has a \$3 price target on the stock.



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