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GREAT INVESTMENTS PROGRAMME

EDUCATIONAL BRIEFING

When a Winner Runs

The Rebalancing Question

Do You Take the Profit, or Let It Run?

A framework grounded in the GIP rules and four decades of academic evidence

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The Question Every Successful Investor Eventually Asks

A GIP member recently wrote in with a problem most investors would happily trade places for. Two stocks from the Filtered List, held for a few months, now up over 80%. Both still rated 8 on the latest approved list. The question was simple: ***Is this the point where you take the profit and rotate into something fresh?***

It is one of the most common questions I receive, and it is worth answering carefully because the honest answer cuts against nearly every instinct. The instinct says: lock it in. The evidence, and the GIP framework, usually say: let it work.

This briefing sets out how to think about it — the rule inside the programme, the academic research that has studied the same question for forty years, and a practical decision framework you can apply when it is your turn.

The Rule Inside the Programme

The programme is built around two distinct paths, and the rebalancing question is answered differently depending on which path the stock sits in. This is the single most important distinction to get right.

Path A — The Filtered List (direct holdings)

- Select from the Approved Filtered List, hold for twelve months, exit if the position falls 25% from its peak.
- There is no rule that tells you to sell a winner. The twelve-month clock and the 25% stop are there to manage risk and time horizon, not to cap upside.
- After twelve months, you reassess. If the stock is still green on the filter, still passing the factors, you can extend. If it has dropped off, you rotate.

Path B — The Model Portfolio

- Bespoke basket of names, equally weighted at outset, three-to-five year horizon, annual rebalance back to equal weighting.
- No 25% stop on individual names. The discipline is portfolio-level, not stock-level.
- Rebalancing here is a structural act: you trim the names that have outgrown their slice and top up the ones that have not, to restore the equal weighting you started with.

Where the Confusion Usually Creeps In

The phrase "rebalancing" in my weekly commentary almost always refers to Path B — the annual rebalance of a model portfolio. It is a structural maintenance task. It does not translate to Path A, where a single Filtered List stock running hard is a feature, not a flaw to be trimmed away.

So if you hold a Filtered List name, under twelve months, up a lot, still on the list — the guidance is to **let it run to the twelve-month mark**. That is not passivity. That is the rule doing its job.

What Forty Years of Academic Research Says

The impulse to sell winners is one of the best-documented biases in behavioural finance. It has a name, a body of evidence, and a measurable cost.

The Disposition Effect

In 1985, Hersh Shefrin and Meir Statman coined the term *disposition effect* to describe the tendency of investors to sell winners too early and hold losers too long. Terrance Odean later tested it on 10,000 retail brokerage accounts and published the results in the Journal of Finance in 1998. The finding was stark: investors sold winners at roughly 1.5 times the rate they sold losers — and the winners they sold went on to outperform the losers they held by about 3.4 percentage points in the following year.

The lesson: **the very act of taking profits on winners and sitting on losers systematically destroys returns**. It feels right. It is wrong.

Momentum — The Other Side of the Same Coin

Narasimhan Jegadeesh and Sheridan Titman's 1993 study in the Journal of Finance established what is now one of the most replicated findings in asset pricing: stocks that have outperformed over the past three to twelve months tend to keep outperforming over the following three to twelve months. The effect has survived out-of-sample tests across decades, across markets, and across asset classes. Cliff Asness, AQR, and dozens of academics have confirmed it.

Put plainly: **a stock that has just run 80% is statistically more likely to keep working than a random replacement would be**. The instinct to rotate out of the winner into something "fresh" is, on average, a bet against the evidence.

The Cost of Sitting Out

There is a separate but related piece of research every investor should internalise. A $10,000 investment in the S&P 500 from 2003 to 2022 grew to roughly $64,844 if held throughout. An investor who missed just the ten best single days of that period ended with $29,708. Miss the thirty best days and you were down to $11,701.

The best days cluster around the worst days. You cannot be out of the market for the bad ones without also being out for the good ones. The same logic applies at the stock level: the best-performing months of a winning position often come late in its run, after it has already made you uncomfortable with how much it has risen.

What The Professionals Say

Peter Lynch: *"Selling your winners and holding your losers is like cutting the flowers and watering the weeds."*

Warren Buffett: *"Our favourite holding period is forever."*

Jesse Livermore: *"It was never my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight."*

These are not folksy sayings. They are the distilled experience of people who spent careers watching other investors sabotage themselves by doing exactly what a profit-taker is tempted to do — crystallising a paper gain because the number feels unreasonable.

A Practical Decision Framework

When you find yourself sitting on a large gain in a Filtered List position, walk through the following checklist before you touch the sell button.

Question	What it tells you
Is it still on the Approved Filtered List?	If yes, the factors that got it on the list are still working. No reason to sell on valuation grounds alone.
How long have I held it?	Inside twelve months, the GIP rule says hold unless 25% from peak. The twelve-month window is the minimum, not the maximum.
Has it fallen 25% from its recent peak?	If no, nothing in the rulebook is asking you to act. If yes, that is the only hard exit trigger in Path A.
Has the monthly MACD turned bearish?	The Daddy Bear signal is optional on Path A and not mandated. If you use it, the monthly chart is the decider — not weekly or daily noise.
Is it now a disproportionate share of my portfolio?	This is the one legitimate reason to trim a winner — position sizing. If a single name has grown to 30%, 40%, 50% of your total equity, concentration risk starts to matter. The fix is trimming, not exiting.
Do I have new capital to deploy?	Fresh money goes into fresh names from the current approved list. You do not need to sell a winner to fund a new position.

The Three Sensible Responses

1. Hold

The default position on a Filtered List winner that is still on the list, still inside the holding period, and not concentrated to the point of portfolio risk. Holding is the evidence-based answer in the overwhelming majority of cases.

2. Trim (not exit)

If the position has grown into an oversized slice of your overall wealth, trim back to a level you are comfortable with — say, 10% or 15% of the portfolio — and let the remainder continue to work. You keep the exposure, remove the concentration risk, and avoid the behavioural trap of exiting entirely. Reinvest the trimmed amount into other names from the current approved list.

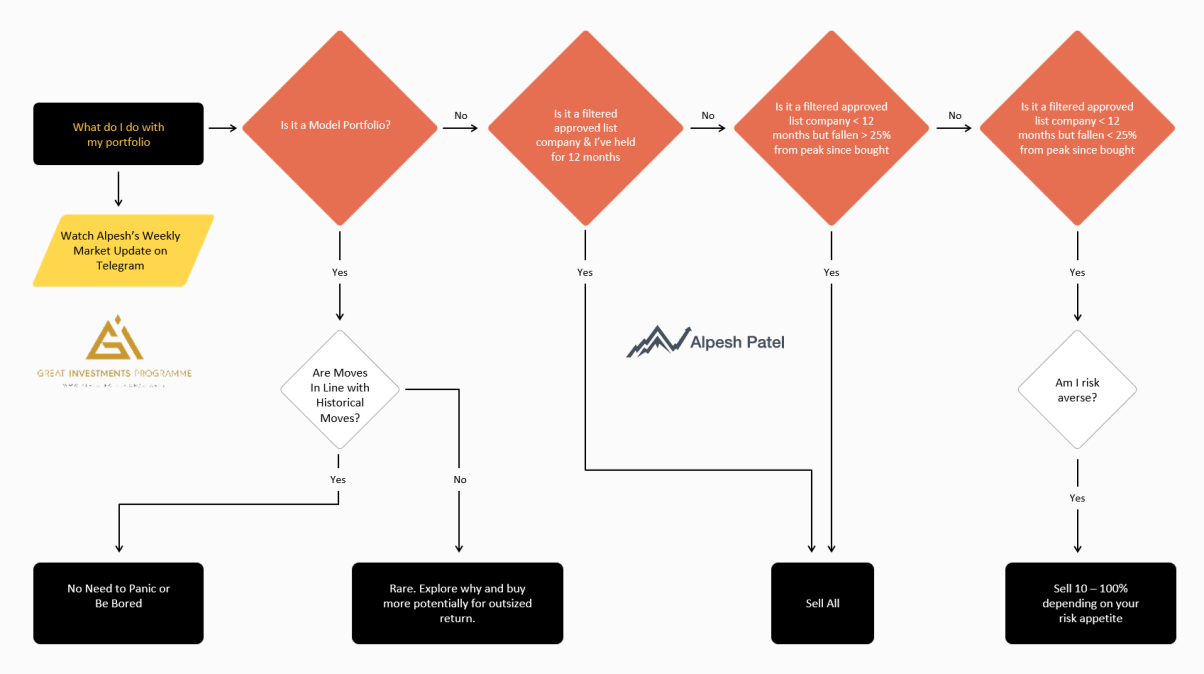
3. Rotate

If the stock has dropped off the Filtered List, or has fallen 25% from its peak, or the twelve-month window has closed and it no longer looks compelling on the latest filter, then rotate. This is a rules-driven action, not an emotional one.

What Is Almost Never the Right Answer

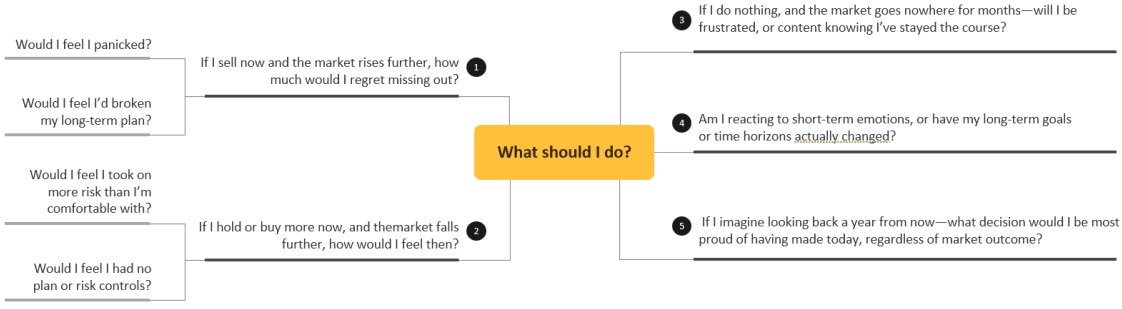
- **Selling because the gain feels big.** The size of the gain is not information. It is a feeling.
- **Selling because you want to "lock it in".** You can lock it in today and watch it double again next year. The tax bill and the regret compound together.

- **Selling because you did not expect this much profit.** That is the disposition effect in its purest form. Feel it, name it, do not act on it.
- **Selling a Filtered List winner to buy another Filtered List name.** You are swapping a known, working position for an unknown, untested one. The hit rate on the list is strong, but the baseline probability is still that the runner you already own keeps running.



Ask Yourself These Questions

Please take a moment to consider each of the following:



This isn't about getting the perfect outcome.
It's about making the least regrettable one for you.

The right answer is always personal.
It depends on your risk tolerance, your financial goals, and your emotional resilience.

What the Research Says

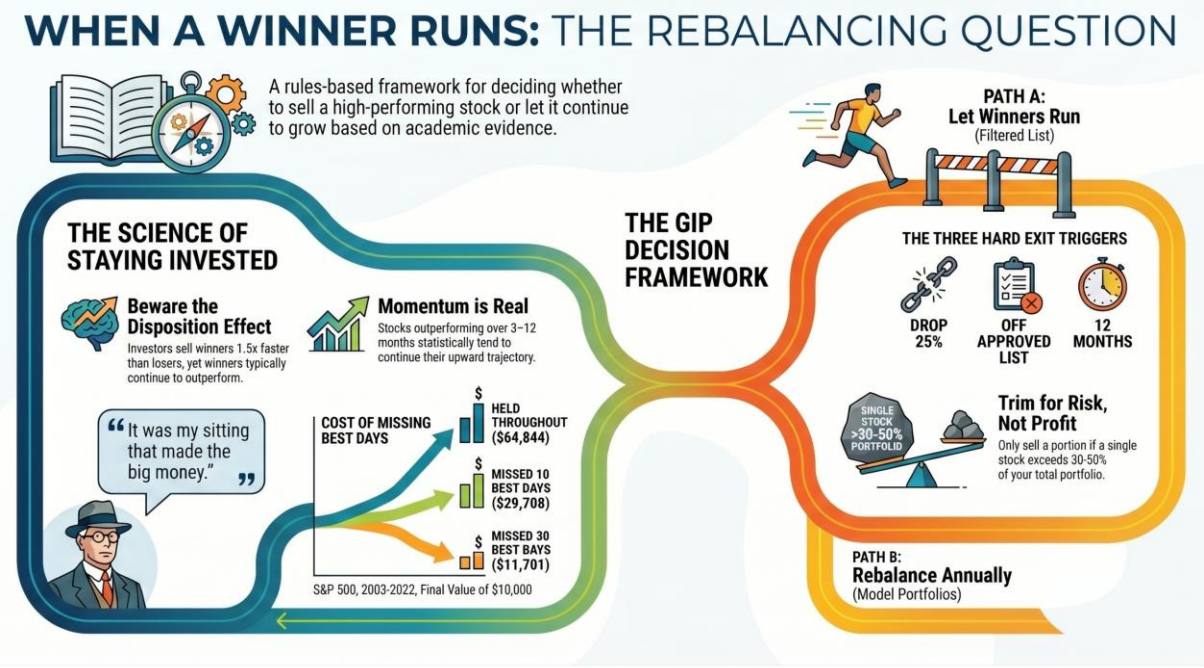
Academic studies show that trying to time markets often results in lower long-term returns and higher stress. What tends to work better is **having a clear plan, understanding your tolerance for regret**, and **making decisions that align with your values and comfort** —not the headlines.

The Bigger Picture

The 4-out-of-10 rule is the arithmetic of the programme: if four of ten stocks do the heavy lifting, the portfolio works. That assumes you let the four do their work. Cut the flowers at 80% and you guarantee you will never see the ones that go to 200%, 300%, or more. Those are the positions that turn a good portfolio into a great one, and they always feel uncomfortable on the way up.

In Summary

- Rebalancing is a Model Portfolio concept, done annually. It is not a Filtered List concept.
- A Filtered List position is exited for one of three reasons: 25% fall from peak, fall off the list, or the twelve-month review.
- Gains — however large — are not on that list of reasons.
- Academic research (Shefrin & Statman, Odean, Jegadeesh & Titman) has spent four decades documenting that investors who sell winners early and hold losers underperform the market.
- The only legitimate reason to act on a large winner that is otherwise behaving is position-sizing: trim to manage concentration, do not exit to capture profit.



Important Information

This communication is for informational and educational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument, nor as regulated financial advice.

All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Past performance is no guarantee of future returns. Investing carries risk of loss of capital.

References to academic research are summarised for educational context. Readers are encouraged to consult the original sources (Shefrin & Statman, 1985, Journal of Finance; Odean, 1998, Journal of Finance; Jegadeesh & Titman, 1993, Journal of Finance) for the full methodology and findings.