

Dividend SIMPLIFIED

Sell Process



Roadmap to selling your stocks

PROVIDED TO YOU BY



DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT



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A LITTLE ABOUT ME



First, congratulations on taking action and taking care of your investment portfolio! I'm a passionate investor looking forward to connecting with other passionate investors.

My name is Mike Heroux and I'm the founder of Dividend Stocks Rock, a platform helping people like you invest with more conviction so they can enjoy their retirement.

You can also find my work under "[The Dividend Guy](#)" on most platforms:

- [Blog](#)
- [Podcast](#)
- [YouTube](#)
- [Blossom](#)
- [LinkedIn](#)
- [The Moose on the Loose podcast](#)

I earned my bachelor's degree with a double major in finance and marketing, I completed a CFP (Certified Financial Planner) certification along with an MBA in financial services. I worked in the financial industry for over a decade including 5 years as a financial planner and another 5 as a private banker managing accounts for high net worth (read \$1M+) clients.

In 2016, I decided to leave everything behind and go for a 1-year RV trip across North America and Central America (we made it all the way down to Costa Rica!). Upon my return in 2017, I quit my job as a private banker and invested all my energy in Dividend Stocks Rock. I wanted to pursue my dream of helping thousands of people invest with conviction. Since then, I have been a full-time online entrepreneur.

Besides being a passionate investor, I'm also happily married with three children, and I live in the beautiful province of Quebec, Canada. As a French Canadian, I have most of my writing edited in English to minimize any grammatical or spelling errors. So... pardon my French if you find any mistakes 😊.

I am an avid traveler (having visited 25 countries and counting) and use running as my number one means of physical therapy and mental rejuvenation. I love connecting with other investors, travelers or runners. Hit me up on any platform or reach out to me directly at dividendustries@gmail.com.



A ROADMAP TO SELLING YOUR STOCKS

“The desire to perform all the time is usually a barrier to performing over time.”

~ Robert Olstein

Every single stock I have purchased for my accounts has been set for a great future, or so I thought each time I added another company to my portfolio!

I’ve always favored doing the hard work first: consuming as much content as possible, analyzing, comparing, and then hitting the “buy button.” Once a new position is part of my portfolio, I expect it to stay there for decades.

However, as I’m not the man I was 20 years ago, companies and economic environments change as well. Therefore, it happens on occasion that I have to sell positions for several different reasons.

Selling is hard

As much as we don’t want to invest at the wrong time, we certainly hope to never sell once we found the conviction to buy a stock. We are being told to stick to our strategy, to invest with conviction, etc. It should mean that we shouldn’t sell, right?

We hope all our holdings will end up being great companies, generating great profits forever.

- We want to hold on to our winners forever.
- We keep our losers in the hope they will comeback.
- We ignore stocks going sideways by focusing on the dividends they pay.

Plus, after selling comes the next big question: *“where do I invest my money now?”*.

So... when do we sell?

This newsletter will give you the right framework for selling in each situation. Once you have built clear investment selling rules, you won’t hesitate again.

Let’s start with my golden rules for selling and then we will apply them to each situation.



THE GOLDEN RULES OF SELLING

I like keeping my investment rules simple. If I can teach them to my son Caleb (he's 13), I can apply them without hesitation. Therefore, I have only 3 reasons to sell.

Rule #1 The company doesn't respect the investment thesis

I often say that my reasons to buy a stock will become my reasons to sell it later. This rule relies on two components: the investment thesis and the metrics.

The investment thesis is the story behind why I like a company. It's broken down into three elements:

Playbook: How the company makes money, and what's the foundation of its business model.

Growth vectors: How the company will continue to thrive (acquisitions, organic growth, innovations, demographic, etc.)

Economic moats: How the company keeps a competitive advantage over the long haul (iconic brand, network effect, high barrier to entry, etc.).

You guessed it: this is all words and stories. Therefore, it is possible I'm buying a company because I believe in its growth-by-acquisition strategy. If the company stops using this strategy, it's possible that my investment thesis is not valid anymore. Or maybe the company was not the fierce competitor I thought it was, and it had no economic moats.

When the story doesn't unfold as I expect, I hit the sell button.

Rule #2 The company's metrics don't back the investment thesis

The most difficult part about an investment thesis is that you can always believe the story will happen... later. That you must be a little bit more patient, and the company will turn things around.

I get asked a question like this one at each webinar:

"When do you think company X will recover?"

The sad truth is that most of them never will. But I get that it's hard to let go of a stock as the narrative remains interesting. Where do you draw the line?

You draw the line with numbers.

To avoid falling into "hope", because hoping is not an investing strategy, I combine my investment thesis with financial metrics. In other words, I constantly verify my story with facts.



Therefore, a company could continue to be a great story (*leader in a market, well-established for decades, providing an essential product/service, will surf the next tailwind, etc.*), but it also must transform this story into results.

I can tell you that my father used to be a triathlon champion, that I follow a special diet created by experts, and that I train with Usain Bolt. If I struggle running a 10km you will eventually tell me that my story isn't enough.

How much time should you wait?

That's a tricky question as there is no perfect answer. I never sell after one bad quarter (bad happens, right?), but I also don't want to wait 10 years before deciding.

What matters is to have a timeframe for your decisions. Here's how I approach this:

It's important to add context and understand the problem. The time frame I'm willing to wait is up to 3 years. In other words, I give companies in my portfolio 3 years to prove that the investment thesis is valid and translates into positive numbers.

A bad quarter could be driven by a temporary problem; you can wait several quarters or even a couple of years. After all, the economy could recover within 2-3 years, and you will see signs of improvement quickly.

Like the investment thesis review, I'm willing to keep a stock for 2, 3 years with a weaker dividend triangle, especially if we are talking about a cyclical company.

3 GOLDEN RULES OF SELLING

- #1 The company doesn't respect the investment thesis
- #2 Financial metrics don't back the investment thesis
- #3 A dividend cut and you are gone!

During that period, I will follow how management addresses the problem and what's the plan to get back on track. Monitoring quarterly earnings is great for that. You can do an extra step and investigate the earnings calls transcript. Analysts often ask the questions that are on your mind.

Rule #3 The company cuts its dividend

This one is an easy rule to follow.

In a perfect world, I would have already sold the stock prior to the dividend cut based on rule #1 and rule #2.

But if I get caught off guard and the company announces a dividend cut, I don't think twice and would sell the same day.



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It is true that most of the time the stock could bounce back a little in the following weeks or months. But I don't want to maintain a highly disappointing holding for that additional time. Plus, before the dividend cut, the stock was already down significantly. Therefore, if you had a stock at \$100, and you see it go down to \$50 and then there is the dividend cut, would you feel that much better after a 15% recovery and eventual sale at \$57.50?

Even worse: you may not sell at this point and think it will continue to recover.

If you do that, you get into the "Algonquin cycle of doubt". The stock went up after the dividend cut and then crashed again. Most importantly, the small rebound after the dividend cut looks big on the following graph, but the stock had already lost so much before that it didn't matter.



Once you have set those rules, you have covered pretty much all situations. The investment thesis and the financial metrics are at the center of most of my sell decisions.

Now we will see how you can apply them in various situations.



SELLING LOSERS – HOW DID THAT HAPPEN?

Now you know the three rules I use to sell my stocks. Have you noticed something?

None of my rules include a reference to the stock price performance.

It could go down, or it could go up, I don't care: if the stock hits one of my 3 rules, it will be tossed in the trash.

Now, let's talk about what happens when you have a loser in your portfolio. I understand that it could be hard to simply follow rules. So, we will add more context to the three rules!

Knowing why you lost money will tell you much about what your next move should be. **For this newsletter, we will look at what happened between the peak of the market from January 1st 2022, to December 31st 2022.** We will try to understand what really happened during that year to explain the market drop.

Writing down a clear and plausible explanation of why a stock is down will help you assess the company's chances of reversing its situation. After all, the stock market is filled with stories that ended like BlackBerry or General Electric.

The first pitfall we must avoid is being too general.

"Ah... it's just the market; it's a bad year" ... or more recently "Ah! It's Trump economics" (mind you, the stock market is up right now so it's not even an excuse!).

Such an explanation will not bring you much information. By blaming a specific event that crushed the market (a recession, a war, inflation, or interest rates), you are simply hiding behind the first reason you found. This is a mechanism of protection. After all, if it's a bad year, what can you do? Nothing, you must wait. Waiting for better days isn't often a successful strategy.

The second pitfall is to deny the situation.

"The market just doesn't get it; the stock is greatly undervalued" or "This company has been around for so long; it will come back". This sounds more like denial than describing how a company is falling short. Sometimes, you will be right, and the market clearly didn't get it. But in most cases, you are better off looking at what the market "gets" that you don't!

Again, if you use rule #1 (investment thesis) and rule #2 (financial metrics), you will quickly confirm that you are on the right path, or that you are dead wrong and you must act.

P.S. It's okay to be dead wrong as I've been wrong many times, and it happens to all of us!

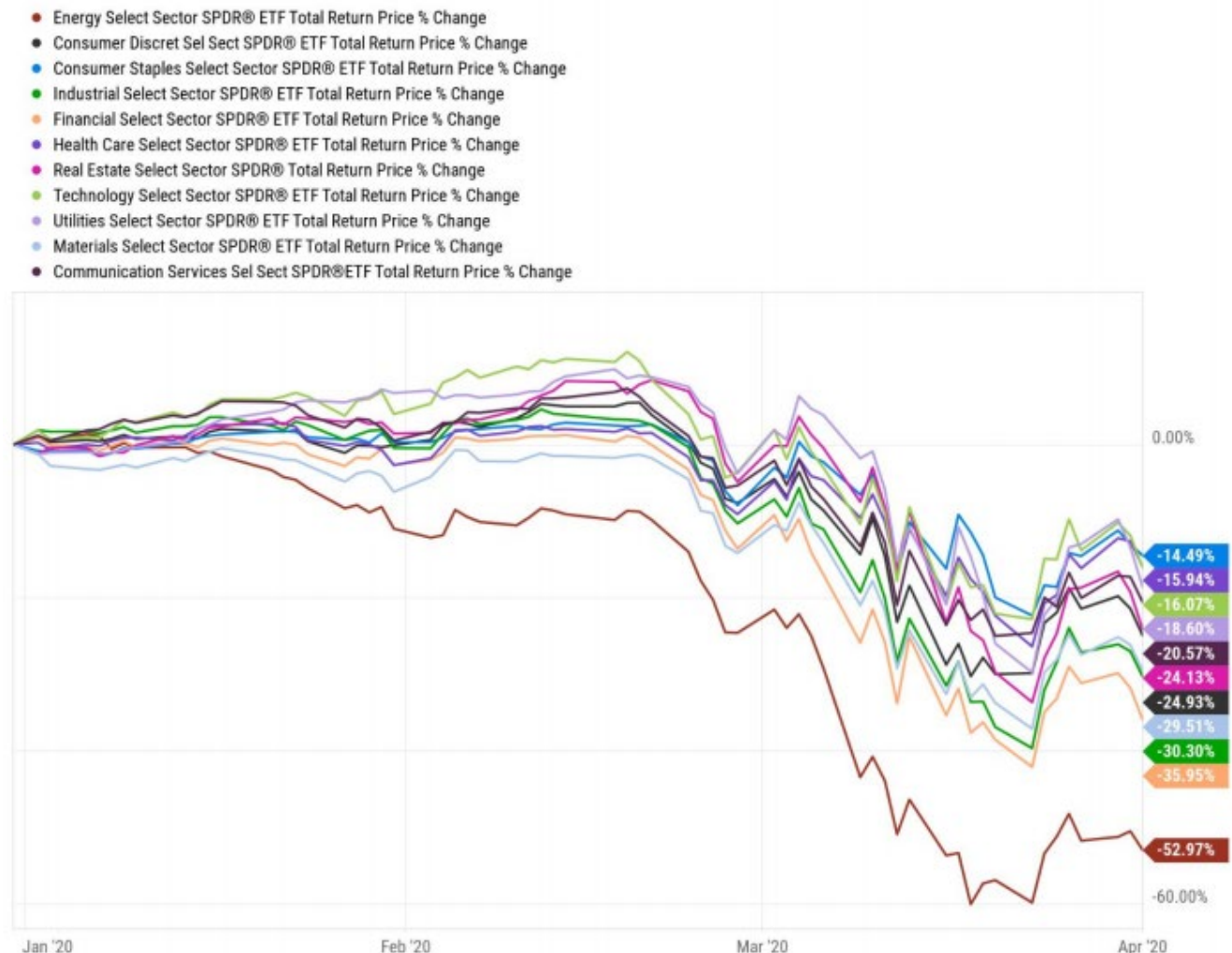


Where is the source of the problem?

The first question you must clearly answer is what was the source of this debacle? First, save yourself some time and check if it was:

- #1 The market
- #2 The sector
- #3 The company

If the entire market is down, as it was during the 2020 pandemic, then consider how much your stocks have declined. Everything that moves in a similar way to the market in total doesn't deserve your immediate attention. It's only normal. Then, you can identify if it's because a sector has been hit by a specific event. In March of 2020, the oil & gas industry had been hit by two events in the same month (this is what we call a perfect storm!). First, the pandemic pushed the entire market down. Then, OPEC decided to flood the market with cheap oil.



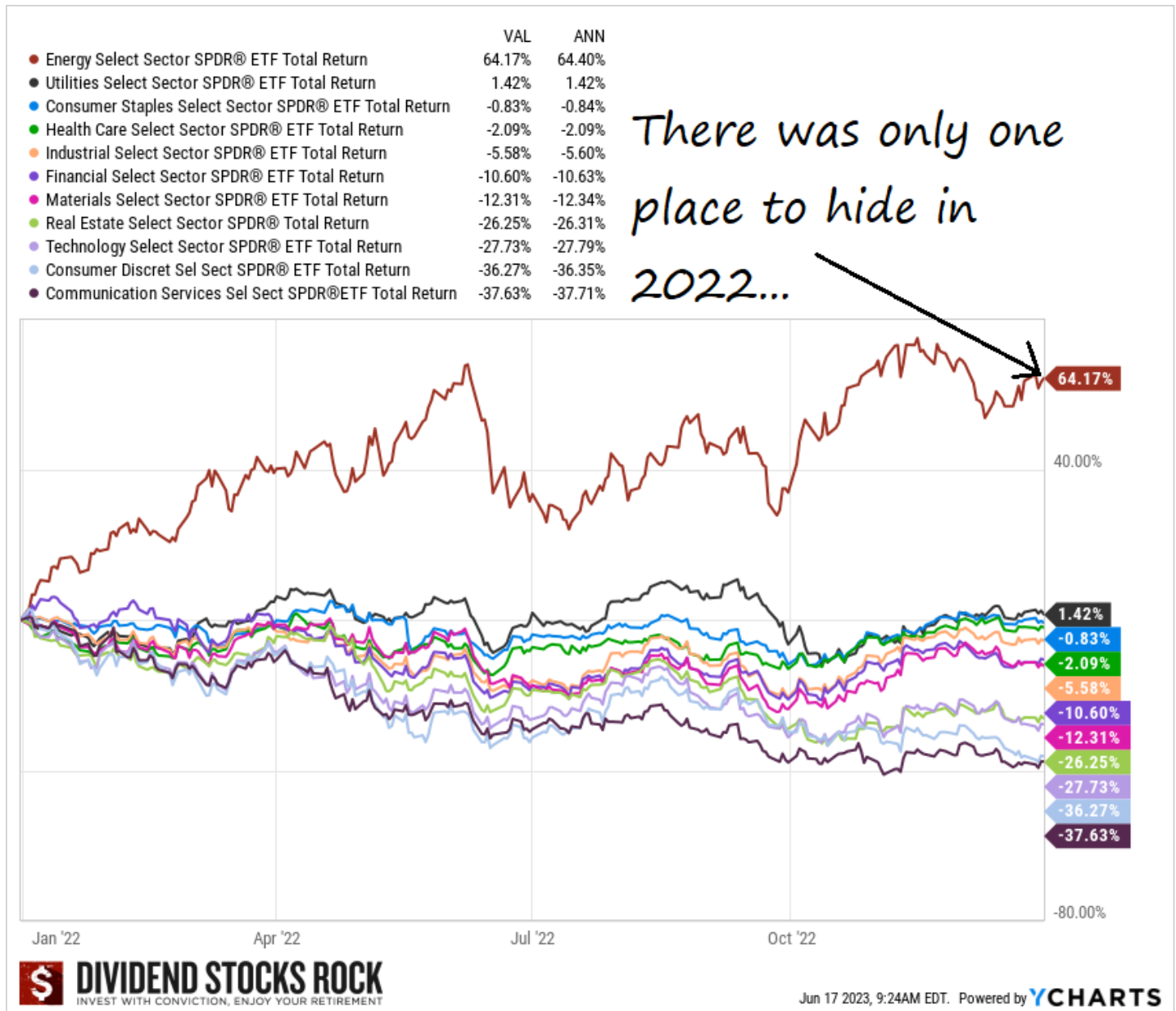


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In this chart, we clearly see the energy sector getting hammered a lot harder than any other sector. Whenever an entire sector crumbles, you must assess the situation. What is going on and why? In this case, we saw demand for oil declining drastically due to the lockdown combined with an increase in offerings from OPEC. If you go back a few years in history to add some perspective, you will notice a similar offer/demand crisis happened back in 2014-2016. The energy industry has gone through three crises in eleven years. Do you think these companies are strong enough to thrive going forward? The answer to this question will help you determine what the possible outcomes are for the coming years in this sector.

Now back to 2022, here's how this graph looks:



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Strangely enough, the energy sector (which I have disliked and bashed for so many years) was the only haven that year. Looking at the overall market during this period will tell you that it would have been normal for your portfolio to show some red unless you are an energy sector enthusiast.

The whole sector could go down

The second step of analysis here is to determine why REITs, Technology, Communication Services and Consumer Discretionary have been so bad. We don't know for sure, but here are some valid hypotheses of what happened in 2022:

REITs: Higher interest rates affect REITs debt structure. We often forget about this part, but the REIT business model is all about leverage. If their debt costs increase, it will hurt FFO and their ability to raise distributions. On the other hand, it seems like the market often forgets that REITs can increase their rents and pass on a part of inflation and interest rate increases to their tenants. The key here is to look at your REITs' balance sheet, debt structure (maturities), tenant quality and diversification, and credit ratings. Some industries will be affected more than others.

Technology: This has been explained a few times via this newsletter and our DSR webinars: the drop in the tech sector is directly linked to the rise of interest rates. The market was willing to pay high P/E ratios if interest rates were low. Now that the game changed in 2022, investors require a higher rate of return on their investments. Since many tech stocks were trading at a P/E ratio above 25 and they suffered from the chip supply disruption, we have a perfect storm to crush their valuation. We now know it has not taken long for the tech sector to come up with a new narrative (the rise of A.I.). This explains the bounce back since in 2023.

Communication Services: If you want to understand why this sector fell in 2022, a good solution is to look at an ETF tracking that sector. You can then look at the top 10 holdings of this ETF and see which big guys had an influence. If you look at Communication Services Select Sector SPDR ETF (XLC), you will see that Meta Platforms (formerly known as Facebook) account for 20% and Alphabet (Google) for 21% of the ETF's value. There was a lot of bad press around FB in 2022 and the changes in the privacy rules applied by big smartphone players such as Apple directly affecting advertising revenues for both FB and Google. In this sector, you will also count most of the streamers (notably Netflix which lost 70% in 5 months that year!). The hype around streaming services quickly faded as the market was concerned about heavy competition and the rising costs of content creation. Fast forward to today and we find both Meta and Google are back to full strength while it's not that easy for classic capital-intensive telcos.

Consumer Discretionary: When the economy booms and consumers are willing to spend freely, consumer discretionary companies are at their best. With rising inflation, higher interest rates and the whisper of a recession coming, we are at the opposite end of that spectrum. If we forecast a gloomy economic future, this sector will drag. However, this could be a great time to add some stocks with solid brand names and diversified business activities.



The company you invested in is the problem

If the market is doing okay and most companies in the sector you invested are also doing okay... well the problem is the business.

This is where matching your investment thesis with financial metrics can provide you with a wealth of information.

While I never sell because my stock is down, the fact one of my holdings is showing -30% is a sign I should dig a bit further to find an explanation. As mentioned in the golden rules section, I am okay waiting 2 to 3 years if I see a plan being put in place and financial metrics improving.

I know I'm taking a risk in waiting up to three years, but I don't want to be trigger happy either.

Don't be trigger-happy as patience is a skill you must acquire.

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." — George Soros

Before we move into the "what should I do section", I'd like to put some emphasis on patience. I know, this seems counter-intuitive in a newsletter entitled "sell everything". My point here is to make sure you don't sell when a stock is down 10-20% before truly assessing what is happening with the company.

A 10-20% drop could possibly mean that you were unlucky and bought at the wrong time. Those who invested new money at the beginning of 2018 had to endure a 20% value drop (from July 2018 to December 2018) before smiling again in 2019, 2020 and 2021. Was 2018 a good year to invest? Today it's easy to answer that question.

Let's look at Microsoft which generated a total return of -28% in 2022. But if you held onto your investment, MSFT is now back in positive territory (total return of 35.45% between January 1st, 2022, and June 21st, 2024! However, this doesn't mean you should keep all your losers, all the time. Sometimes, we make mistakes, we write the wrong investment thesis, and we must be humble enough to take our losses and move on.

Speaking of which, when is the right time to sell?

WHAT SHOULD I DO NOW? SELL OR WAIT?

First rule: never sell your losers because you lose money.

Second rule: never keep your losers because you lose money.

Selling a loser is first and foremost an acknowledgement that you were wrong in your original assessment of the stock. Nobody likes being wrong, especially when it means losing money. Denying the problem and keeping your losers forever is a self-destructive way to avoid that cold hard truth.



When we get hit with a 40%+ loss in our portfolio, many of us may be tempted to keep the stock for a while. *I'll keep my shares until I recover a good part of my losses.* **Bad decision.** Let's dig into this fairy tale.

The breakeven fairy tale

Let's take a moment to look at what happens when you lose money on an investment. This table will show you how much return you must generate from an investment that suffered a great loss.

Original Value	% Loss	\$ Loss	Present Value	% To Break Even
\$10,000	10%	\$1,000	\$9,000	11%
\$10,000	20%	\$2,000	\$8,000	25%
\$10,000	35%	\$3,500	\$6,500	54%
\$10,000	50%	\$5,000	\$5,000	100%

Please note that the more you lose in %, the required rate of return to break even is increasing exponentially. This is why your energy stocks will require you to generate a stock return of roughly 100% for each of them that dropped by 50% only to recover back to your initial investment.

Now, what are the odds you will see your investment bouncing back that strongly in the next 5 years?

That's correct; it depends on the investment and the situation. But overall, chances aren't that strong. In many cases, you will hold onto your big losers for several years until you finally throw in the towel and move on.

If you refuse to sell for too long, you may suffer even more.

First, you lost your money on a bad investment.

Second, you take the risk of losing even more. Besides price anchoring, there is nothing telling you the stock price will eventually go back up. It may continue to lose even more.

Third, you keep losing money by keeping your dead weight instead of investing your monies in a more profitable stock.

Not to mention that it also drags your confidence down each time you see a red line in your brokerage account!

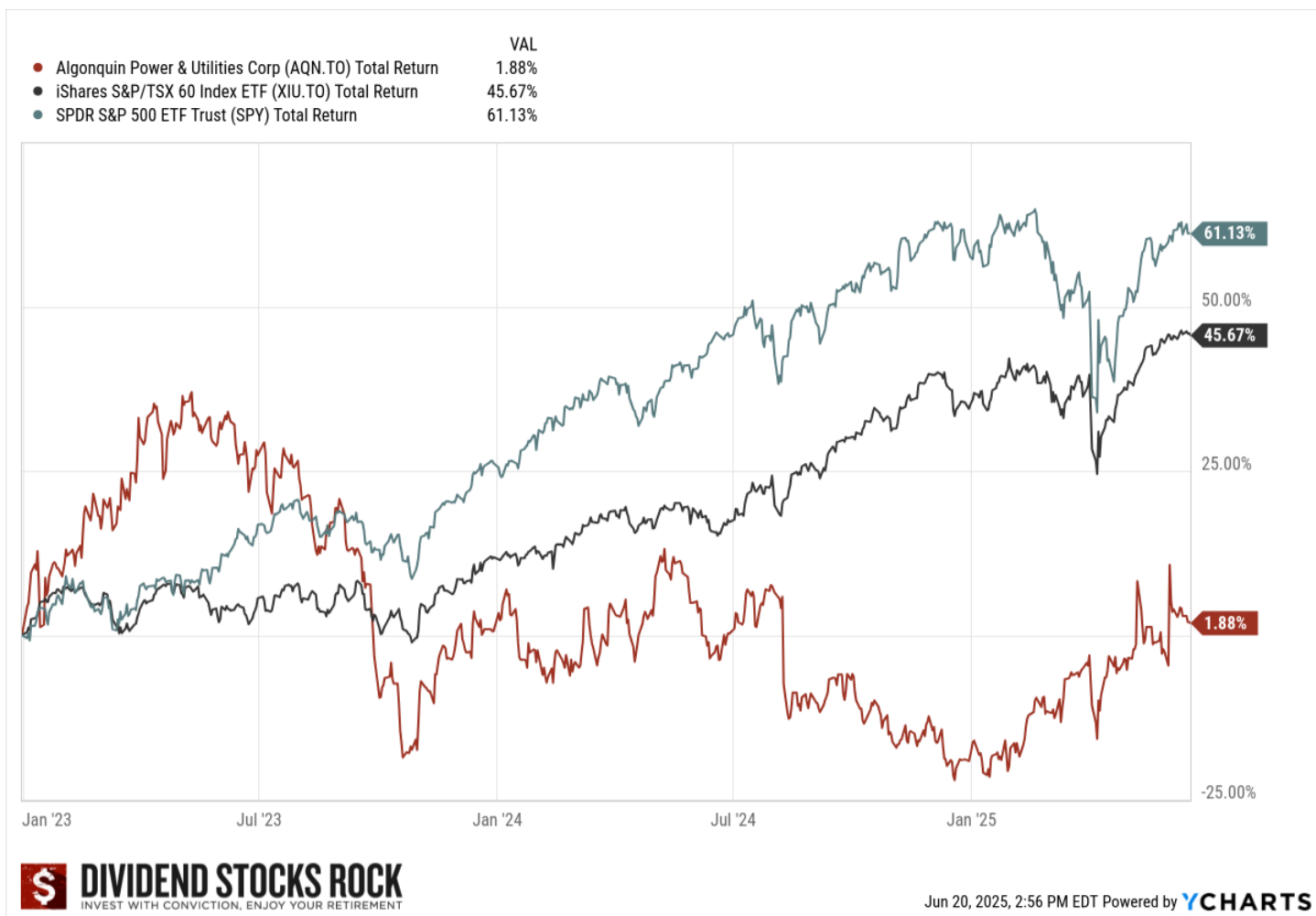
I feel a lot better about the fact I lost money on AQN since I sold it in 2023.

The costs of waiting are insidious. They hurt your portfolio like an infected wound. You must act.



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I will discuss the “Algonquin disaster” later in this newsletter. I wanted to highlight what happened to the stock since management announced the dividend cut on January 12th, 2023. The stock had a short run until May 2023 and then it went back down again.

Fast forward to 2025 where the Canadian market is up 45%, the US market is up 61% and AQN is barely flat. Even worse, the last time you “were right to keep it” was in August of 2023.

Again, the cost of opportunity is real.

The three golden rules will enable you to make quicker decision on losers and not look back and truly focus on the next investment.

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SELLING WINNERS

As a losing stock is not a good reason to sell, a winning stock should not be subject to an arbitrary upside limit.

I want to let my winners run if they meet my investment thesis and the numbers confirm the narrative.

Winners increasing by 100%, 200%, and 500% are the ones supporting your total return and making a significant impact on your financial plans.

I spend no time thinking that I bought my Microsoft shares at \$75 when I review my holdings. What matters to me is if the investment thesis is still right and if financial metrics support it.

But I will add one more selling rule at this point.

Rule #4: Sell a winner when it exceeds your risk exposure limit

The exposure to risk is how much one position can hurt your portfolio in the event you are wrong.

In other words, imagine that I don't read Microsoft's future the right way and the stock goes down by 50% in the next 12 months. What is my exposure to risk in this case? How much could I lose in this case?

I like to use the catastrophic scenario of losing 50% of a stock to see if I'm comfortable with that thought.

Imagine that you have \$100,000 invested in Microsoft, are you okay losing \$50,000?

It depends on the size of the portfolio.

That's why I use a percentage instead of a dollar amount. I look at the total of my portfolios and see if a stock puts me at risk.

The limit of your risk exposure is up to you. Some will be comfortable losing 2% of their portfolio on a bad investment, some others will be 4% or 5%.

For example, my exposure to risk limit is 5%. I'm willing to lose around 5% of my entire portfolios on a bad investment.

Therefore, I can live with a stock representing up to 10% of all my portfolios. If Microsoft gets above 10%, I will sell about 2% to bring it down to a more comfortable risk level.

I'm just trimming to maintain a good balance in my portfolio. In that case, I would still have 8% of my portfolio invested in one of my favorite stocks.

The 10% is for example purposes only. You must determine your risk exposure limit.



SELLING STOCKS GOING SIDEWAYS

There will be a time when a stock doesn't perform, and you wonder if you should keep it or not. The loss isn't big enough to keep you awake at night, or it's slightly up, but underperforming the market.

Throughout your analysis, you realize there are uncertainties around a specific topic. The market hates the unknown and will punish any company showing uncertainties. Those unanswered questions could look like this:

"When will Allied Properties stabilize its occupancy rate?"

"Should I keep my TD shares or sell it before the end of the anti-money laundering investigation?"

"Will Pfizer develop new drugs and get back on growth mode to get some love from the market?"

Those questions are impossible to answer when they are asked. Those are uncertainties. They will grow as a burden each company must carry. It will weigh on their stock performance until the unknown is known.

So... should you wait until the end of the movie?

That doesn't mean you should keep your shares (or run to sell them). Here's my trick to determine if I want to keep a laggard in my portfolio until the story unfolds:

I always make sure I'm comfortable with this type of risk. If I'm not, then I sell.

Here are a few examples:

If you look at my portfolio, you'll notice I don't have any big pharma. That's because I don't like their business model as they depend on the next blockbuster. It doesn't mean it's a bad business model (some will argue that patents will protect those blockbusters for decades thereby generating lots of revenue). I'm just saying that I, as an investor, don't like this type of risk.

I'm good with the risk of buying shares of a stock at an all-time high price. I did that many times in the past (Costco, Microsoft, Visa just to name a few). I'm aware that pulling the trigger on a stock priced at a peak value could result in a quick drop. But I prefer to be fully confident in a company's business model and its ability to grow in the next decade than caring about what happens with the stock price 2 months from now.

Again, that's a personal choice. There is no right or wrong answer, and you should not follow my disinterest in pharmaceuticals or jump on every highly priced stock with a strong dividend triangle. Those are just examples of my perception.

What really matters is your level of confidence in each holding. If you feel uncertain with an investment, it's usually a strong signal to sell and move on.

Once again, the golden rules of selling apply.



SELLING TO GENERATE INCOME AT RETIREMENT

I am a big fan of keeping the same investment strategy at retirement. After all, you spent decades crafting, upgrading, and managing an investment strategy that brought you to where you are. Why wait when it's time to enjoy life?

However, chances are your portfolio income will not be enough to support your retirement budget. In fact, I think it shouldn't as I don't see the point of dying with \$2M in my bank account. I prefer working harder on my retirement plan to spend as much money as possible to enjoy many experiences with my loved ones while I'm alive. The \$2M won't serve me at 82! But that's my personal choice, not something you should do if you think differently.

If you must sell shares at retirement, you don't want to do it during a down market. It sucks to sell shares at a loss!

Great news: having a cash reserve solves this problem and enables you to enjoy retirement, sell shares at the right time and not have to worry about a bad year on the market!

The cash reserve solution

The cash reserve can be used to facilitate the transition from the accumulation phase to the decumulation phase. It is a strategy to protect your portfolio during times of volatility.

Throughout your retirement years, you will go through bull and bear markets. Selling shares to generate your homemade dividends during a bear market could hurt your retirement plan.

Here comes the concept of having a cash reserve. The cash reserve is money that is not invested in the stock market anymore. It should be liquid and secure.

How to use the cash reserve

The cash reserve will bridge the gap between what your portfolio generates in dividends and your retirement budget. For example, if you need \$50,000 per year and your portfolio generates \$20,000, there is a gap of \$30,000 per year.

The \$30,000 gap must come from selling shares. If you sell shares at a depreciated value, this could hurt your retirement plan. Alternatively, you can dig into your cash reserve and keep your portfolio intact until the market recovers. After that recovery, you can sell shares and refill your cash reserve.



How much is enough?

There is no clear answer to this question. On one side, you want to mitigate the impact of market volatility on your withdrawal sequence. On the other hand, you want to maximize your portfolio returns.

A large cash reserve will increase the short-term protection of your withdrawals but will negate your portfolio's ability to generate higher returns in the stock market over the long haul.

Therefore, the amount of your cash reserve depends on the gap you must fill and your volatility tolerance. Some investors will be comfortable with no cash reserve and simply accept they will sell shares yearly to complete their retirement budget, regardless of where the market is.

Some others will prefer a large cash reserve to cover all potential catastrophes. While most bear markets take around 24 months to recover, some have or could take more than four years to fully recover.

What to sell?

Ah! That's the question, isn't?

I would proceed with the following steps each time I must sell shares at retirement:

- ✓ Sell any positions that is not aligned with his original investment thesis (rule #1 and #2).
- ✓ Trim to balance your portfolio across sectors and keep your stocks closer to an equally weighted portfolio.
- ✓ If all looks good and no rebalancing is necessary, sell a % of each stock to create my retirement income.

In an ideal world, I would get to trim a little bit of everything each year. I would favor bringing back my portfolio to an equally weighted portfolio assuming I only have "winners" at this point.

The plan is key

Having a clear retirement plan along with an "income plan" to know how much to withdraw from which account will help you prepare your portfolios accordingly.

I'm a big fan of keeping things as simple as possible. That's why keeping the same investment strategy at retirement by simply adding a cash wedge will make my life easier and I will be able to focus on having fun instead of wanting to know what the latest financial news on the market is!



THE ALGONQUIN DISASTER

Before I close this newsletter, I wanted to come back to one of my biggest mistakes as an investor: keeping my AQN shares despite the signals. I must admit that I like to brag about my best moves, but I'm also able to humbly learn from my mistakes.

First, know that **we all will make occasional mistakes as investors**. If you can't support the thought of losing 30%, 40%, 50%, you should probably not invest in equities. We went through this together in 2018, in 2020 and again in 2022. I repeated the same thing each time the market went sideways:

You must be ready to see your portfolio decrease in value from time to time.

However, it doesn't mean you can't do anything to minimize those mistakes. In fact, you can reduce the number of times it happens, and you can also reduce the impact of those rotten apples in your portfolio. And this starts by acknowledging our mistakes.

Major mistakes

Here's a list of mistakes that one could have made when investing in AQN. I've added a star beside those I made with my portfolio.

1. *Investing massively in a single stock (significant weight in your portfolio).*
2. *Not considering the impact of a major drop of this holding in your portfolio.*
3. *Identifying the dividend yield (before the cut) as a key factor in your decision.*
4. *Letting the narrative take too much importance in your analysis. **
5. *Hoping for the best and minimizing the impact of the worst. **
6. *Underestimating the potential downsides / risks (that's the most important section of the stock card).*
7. *Thinking management will keep the dividend as a priority. **

While I made several investing mistakes, I could count on my portfolio management process to protect me from the biggest ones. I'm always very careful about the weight of each of my holdings and I often consider the impact of a major drop of any of my holdings. I sold shares of Apple, Alimentation Couche-Tard and Microsoft in the past to ensure that I don't suffer from those types of mistakes.

This is also how I had minimal exposure to two stocks that did incredibly badly in 2022: Algonquin and Sylogist. However, in both cases, I was guilty of the same investor mistake: I let the narrative take too much importance and ignored the financial numbers as I minimized the impact of the "worst-case scenario". Obviously, the dividend wasn't a priority for either of those management teams.



Lessons learned

With that in mind, I'll go through my portfolio and the DSR portfolios and review them with a more cautious eye. Even though my process makes sure that I don't suffer too much when I make investment mistakes, it doesn't mean I should pay less attention to weak results and blinding narratives. Management will normally put their interests first: the company's financial health (and their salaries) and then create wealth for shareholders. If this means cutting the dividend to follow the plan, they will not hesitate to amputate an arm to save the body.

One reason why AQN dropped so rapidly in November of 2022 was the revised guidance. When management breaks the trust of the market by providing a negative review of their guidance, it creates a lot of uncertainties. Sometimes, it's only temporary and at other times, the uncertainties lead to more problems.

Since then, when I review each of my holdings, I make sure my investment thesis is backed by financial metrics. In other words, I make sure the story I tell myself about a company is confirmed by facts. This is how I ended up selling my shares of Magna International in May of 2024. I still believe in my investment thesis, but the numbers aren't strong enough to validate it.

Therefore, it's a lot easier to follow simple investment rules than holding, waiting, and hoping forever.

By selling, you take away a lot of mental pressure from seeing a "bad investment" in your account.

How to avoid the next AQN

If you want to avoid the next Algonquin, Sylogist, Innovalis, H&R REIT, B&G Foods, Owens & Minor, Walgreen's, Compass Diversified Holdings, etc., there is a short list of things you can do:

1. Identify your core holdings, educated guesses, and falling knives.
2. Make sure your core holdings represent most of your portfolio.
3. See yield above 5% as a red flag and investigate further.
4. Strengthen (or restrain) your investment criterion (e.g., strong dividend triangle, low payout ratio, meeting guidance, etc.).
5. Do not hesitate to move now, even though it means it may hurt (e.g., selling a loser). It could hurt even more down the line if you keep rotten apples in your portfolio.
6. Go for boring, yet consistent and recession-resilient investment narratives rather than exciting, sexy, growth stories.

Offense is the best defense

As I previously mentioned, letting go of a loser is very hard emotionally. However, there is a trick to make the pain go away faster. This is called having a "replacement list". There is nothing better than getting excited by the potential growth of a new stock to allow your laggard to go out the door gracefully.



When I review my portfolio, I look at each of my positions and review my investment thesis. When I find a company that is not meeting my thesis anymore, I put it aside and start looking for a replacement. If my portfolio is well balanced across many sectors at that time, I will look at a better company in the same industry. This is where the DSR PRO replacement list comes in handy 😊.

Once I have found a decent replacement, I will look at both stock cards side by side. I'll review the "[Compare two stocks](#)" methodology found in one of our [DSR fundamental newsletters](#) and use the stock comparison tool if both companies are in the same sector. This will help me compare both stocks analyzing six factors:

1. The business models.
2. The dividend triangle
3. Dividend safety & dividend growth
4. Growth vectors
5. Potential risks
6. Valuation

Results: I get quickly excited by the new company's growth potential and quickly forget about the laggard I disposed of recently!

Once I determined that my investment thesis did not match the company's reality anymore, my reflex is to turn to companies with several growth vectors. When my \$10,000 is now worth \$6,500, I don't think about the \$10K as my focus is now on how I can most efficiently invest what is left.

It doesn't mean that because Andrew Peller once traded at \$18 it will ever do so again. Did BlackBerry ever get back to \$120/share? Or did General Electric (\$55) or Vermilion (\$74) ever return to those previous highs?

When I look at my potential replacement lists with stocks showing ratings of 4's and 5's, I think my chances are a lot better with those picks than retaining my losers.

Focus on how much you could make rather than how much you have lost. If you do this, you will move forward faster and much more profitably than you might otherwise.

Now it's time to identify those losers and potentially get rid of them.



FINAL THOUGHT

I report my pension plan account monthly to show 100% transparency. I share with you my successes and my failures. Over the past 8 years, I made several mistakes (Lassonde, Andrew Peller, VF Corporation, Sylogist, and Algonquin). If you focus only on those mistakes, you might conclude that I am a poor investor. No doubt, those were all huge failures.

Yet, after 8 years, my portfolio continues to outperform the market.

Here's my secret:

#1 Well-diversified portfolio (never let a loser derail my portfolio)

#2 Focus on a strong dividend triangle (most of my stocks show solid fundamentals)

#3 Never hesitate to sell my losers if they don't meet my investment thesis or cut their dividends.

#4 Let my winners run as long as possible.

By quickly moving on after selling my losers and keeping my winners as long as possible, it creates a confidence flywheel. I get rid of the bad stuff early so it doesn't poison my mind and let my emotions rise. I keep the good stuff reminding me that while I make mistakes, my strategy works most of the time. I would rather look at the forest and forget about the weeds 😊.

Cheers,

Mike.



INVEST WITH CONVICTION (4,000+ INVESTORS TRUST DSR)

There are a lot of actions happening in the stock market these days. Investing has become an extreme sport and the overload of information creates paralysis by analysis. You may be tempted to wait until the storm passes.

This is a big mistake.

What if your portfolio has weaknesses? Do you think it's a good idea to go through a storm with a leaking boat and weak sail? As you see dark clouds gathering around the market, the best time to make modifications is now more than ever.

I understand your hesitation. After all, knowing what to sell and what to buy are two of the most common investing struggles.

Twelve years ago, I founded Dividend Stocks Rock to help people like you overcome their financial struggles and invest with conviction.

[CLICK HERE TO GET A \\$150 LIFETIME COUPON TO DSR!](#)

"I must thank you again for the freedom you have provided me. I just looked at my quarter end and I was up 24% between dry powder and gains in one quarter. Man do I sleep well at night!"

"I started in 2020 with no stocks and now my total investments are up 400% since then, I have put a lot of money in, but I put most of it in during the bear market. It was very hard to invest more as things were dropping but I stuck with your plan and now I feel like a rockstar! I have learned when I stray from the DSR ecosystem I get burned so now I know to stick within."

Joe, DSR PRO member since March 2020.

Investing is a lonely path. While you want to manage your portfolio, you have questions and it's hard to get clear answers.

In addition to professional investment tools, I host a **monthly private webinar** at DSR where I invite members to ask their questions in advance.

You will never feel alone in this market again.

If you have any questions about DSR, send me an email at dividendustries@gmail.com

I'm looking forward to connecting with you!

Cheers,

Mike Heroux

Passionate investor and Founder of [Dividend Stocks Rock](#)