

THE HARBOR OAK GROUP AT MORGAN STANLEY

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Watering your flowers, trimming the weeds

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

When it comes to investing, many people focus on how many of their stocks are "winners" versus how many are "losers." It's natural to want more winners in your portfolio, but the key to successful investing isn't just about having more gains than losses—it's about the magnitude of those gains versus losses.

Even if the majority of your stocks show small gains, just a few significant losses can undermine your overall portfolio. On the other hand, having fewer winners doesn't necessarily mean lower returns if those winning stocks have substantial upside. As Peter Lynch once said, *"In this business, if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."* The key is making sure the few big wins far outweigh the occasional losses. This principle is central to how we approach portfolio management here at the Harbor Oak Group at Morgan Stanley.

In the stock market, the downside of a losing stock is limited—once a stock loses 100% of its value, that's the maximum loss. But the upside of a winning stock can be theoretically unlimited. By allowing successful investments to run their course, you capitalize on the market's potential for growth. *"It's not whether you're right or wrong that's important,"* George Soros famously said. *"But how much money you make when you're right and how much you lose when you're wrong."* This philosophy highlights the importance of focusing on the size of gains and losses rather than on how often you're correct.

Limiting your downside risk is just as critical. By cutting losses early and not holding on to investments that continue to decline, you protect your portfolio from being dragged down by just a few poor performers. In this way, the **magnitude** of your losses remains small compared to the gains your successful investments generate.

Ultimately, the secret to effective investing isn't about being right all the time—it's about ensuring that, when you are right, the gains are significant enough to drive your overall performance forward. As Buffett aptly put it, *"The most important quality for an investor is temperament, not intellect."* This focus on managing both the upside and the downside is what sets successful investors apart.



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