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Is it time to sell your investment property? Here’s a guide

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21 hours ago. Updated 20 hours ago The Australian Business Network

24 Comments

Property price forecasts for 2025 are mixed. Many analysts expect we will see falls in the major cities, especially if there is any delay in anticipated rate cuts.

One of the most challenging aspects of investing is figuring out if you should sell an underperforming investment or whether to hold and be patient.

We’re often told to track investment returns closely and sell investments which aren’t performing. But, the reality is some investments just need more time.

Charlie Munger, the legendary investor, famously said: “The big money is not in the buying and the selling but in the waiting.”

So, how do you know when to wait it out and when it’s time to cut your losses and move on?

Most asset classes typically go through three phases:

Recovery: This phase happens when an asset class is typically undervalued compared to long-term indicators i.e., all bad news is fully reflected in current prices. Recent past returns tend to have been poor, but the asset’s fundamentals and performance are beginning to improve.

Expansion: During this phase, the asset class performs well and is starting to become fairly valued. Returns are typically strong and often above average. However, towards the end of this phase, the asset class can become overvalued.

Downturn/Bust: A shift in economic fundamentals or investor sentiment can trigger a downturn. If the asset class becomes overvalued during the expansion phase, it may experience a significant price drop and poor returns. This can happen due to an economic slowdown, recession, or a shift in investor sentiment.

These phases can last anywhere from a few years to more than a decade. As economist John Maynard Keynes once said: “The market can remain irrational longer than you can remain solvent.”

This highlights markets can remain irrational much longer than investors might expect or be able to handle financially. Therefore, it’s crucial to never make big bets or take active positions based on the belief the market is about to boom or bust.

To see returns aligned with the long-term average, investors must be prepared to hold an investment for at least one full cycle. This means if you invest just before a downturn, you may need to hold on to the asset for over 20 years to see decent returns. If you haven’t held an asset through an entire cycle, it’s unrealistic to expect the investment returns you initially hoped for.

In any event, a key question will always be “Is your original decision fundamentally sound?”

In other words, does the asset have the core attributes which make it investment-grade? Put aside recent returns and try to put yourself back in the financial position you were in when you made the investment. Looking back now, do you feel it was a mistake?

It’s often easier to explain this with an example. Between 2010 and 2016, many people invested in investment-grade apartments in Melbourne. Unfortunately, since 2010, the median apartment price in Melbourne has only increased by 2.5 per cent per year, which is slightly below inflation, so no real growth.

This median figure includes both new and older-style apartments, but many older-style apartments haven’t even achieved 2.5 per cent annual growth. I’m sure if investors had known the market would experience such a prolonged flat period, they wouldn’t have made those investments.

But, when you strip hindsight away, the investment itself was fundamentally sound. If you happened to have purchased an older-style, investment-grade apartment, with strong land value, in a highly desirable location with a solid track record of growth prior to 2010, the problem wasn't with the investment itself; it was the timing.

So, how long should you hold on?

If your original investment decision was fundamentally sound, the best holding period is forever! Some investments just take time. And the longer the market underperforms, the more exuberant the recovery will be.

For instance, the S&P500 index in the US didn't change between the beginning of 2000 and the end of 2012 — 12 years of no capital growth, only dividend income. However, since the beginning of 2013, the S&P500 index has appreciated at an average rate of 12.3 per cent per annum — 12 years of above-average performance.

If we average the performance over the past 24 years since 2000, the annual growth rate is 5.9 per cent per annum.

Together with a US dividend yield of circa 2 per cent per annum, this results in an average return of around 8 per cent per annum, which isn't a terrible outcome.

Nevertheless, if — upon reflection — you determine your original property investment was not fundamentally sound, the next step is to assess how sensitive your investment strategy is to underperformance. In other words, can you afford to wait for a few years before exiting this sub-par investment?

For some people, time is a luxury they can't afford, and the opportunity cost of holding the investment any longer is too high. For instance, if they can't make new investments until the current one is sold, the opportunity cost can become the most important consideration.

However, if holding on to the investment won't delay your broader financial plan and you are able to wait, then it's usually best to strategically divest when the timing is right to maximise your exit value.

American billionaire and fund manager Mohnish Pabrai once said: "The single most important skill for being a good investor is to be very content with not doing anything for extended periods."

In this context, "doing nothing" doesn't mean being inactive — rather, patience is a critical skill when it comes to investing, especially if the original investment decision was fundamentally sound.

Stuart Wemyss hosts the Investopoly podcast

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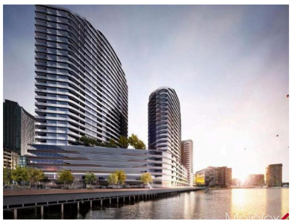

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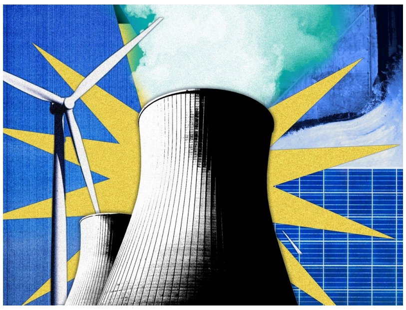

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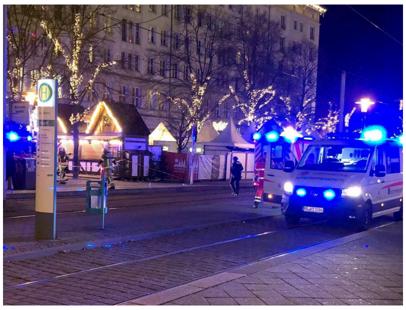

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