



Act of Exiting a Long Position in an Asset or Security

Ishmael Mugari*

Department of Social Sciences

Editorial

The term sell refers to the process of liquidating an asset in exchange for cash. Liquidation is a term used to describe the conversion of non-liquid assets, such as real property, stocks, or bonds, into a liquid property, such as cash, through an exchange on the open market. For example, your house is a non-liquid asset, but when you sell it, you convert it into a liquid asset in the form of cash. A sale performed by a government may be referred to as a disinvestment.

In investing, especially with options, sell generally refers to the act of exiting a long position in an asset or security. In investment research, sell refers to an analyst's recommendation to close out a long position in a stock because of the risk of a price decline. Most people invest in stocks to grow their assets—they hope that the stocks they invest in will grow in value.

Since the act of selling an investment crystallizes a profit or a loss, depending on the initial purchase price, it may have tax implications for the investor. The profits from the sale of a non-liquid asset are known as capital gains and may be subject to capital gains taxes. Capital gains taxes apply any time you sell an asset for more than you paid for it. If you've owned the asset for longer than a year, it will be considered a long-term capital gain and will be taxed at a lower rate than short-term capital gains. Capital gains on long term assets in 2019 are 0%, 15%, or 20%, depending on your tax bracket, while short-term capital gains tax rates correspond to regular income tax brackets. Capital gains from sales of stock are reported on Form 1099-B.

The selling of holdings is often disliked by long-term "buy and hold" investors. They may believe that market averages usually have positive performance over a prolonged period. However, selling may be a prudent course of action in many situations, especially when it needs to be done to rebalance an investment portfolio or to take profits out of the market.