# Should I Hold or Fold?

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Problem: I own several stocks that are on the way down. I realize that the market is still down from its peak, but how can I tell which stocks I should hold, and which I should get rid of?

Solution: Over the long term, a stock's value isn't determined by market returns but by how much cash it generates and how well it invests that cash in its business.

So the most important question is which company is most likely to be running successfully five, 10, or 15 years from now? To answer that question, look at these basic financial measures.

- Price to free cash flow ratio should provide you with an idea of a company's overall valuation. A high ratio usually indicates that a stock is expensive, while a low ratio is often a sign that a stock is cheap. To gauge what is high and what's low, compare the ratio with the average figure for the industry it's in. - Return on Invested Capital (ROIC), also know as Return on Investment (ROI), shows how efficiently the company invests its capital. For every dollar it spends on things like real estate and machinery, how many dollars does it get in return?

- Net operating income as a percentage of sales shows how much the company makes for every dollar received on venues.

- Free cash flow to reported earnings ratio indicates how the company uses depreciation to keep more of its money from being taxed. A higher free cash flow to reported earnings ratio might reveal that a company is generating more cash (which is what really matters to you as a shareholder) than its reported earnings might state.

You can get information from a company's annual report, a stock analyst's report, or your financial adviser. Also consider the stock's record of dividend payments. Recent tax law changes have dramatically lowered the tax on dividends. Not only could this encourage companies to provide shareholders with higher dividends, but it may also increase the value of those companies that regularly pay them.

But a company's finances don't tell the whole picture. You have to look at the company's basic business, as well. Use your own knowledge of a company's products or services, including looking at the competition. Are the company's products as good as those of its competitors? Can it make them at a much lower cost? When possible, use your won experience of using the company's products, or your awareness of its advantages and disadvantages.

If the answer to those questions is Yes, and you're comfortable with the company's price to free cash flow ratio, ROIC, and other financial measures, you might have an information edge on other investors. Hold onto the stock of those companies you want to own decades from now. Chances are, these are the companies that will end up being most profitable for you over the long run. Finally, don't let the emotion of the market dictate your actions.

Look at your stocks using long-term logic, not short-term emotion. If you sell stocks when the market is overly depressed and buy them when the market is overly exuberant, you'll end up buying high and selling low- the last thing you want to do.