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Our partner, Patrick Kim, was quoted in an article on investment strategy in the Globe and Mail today. A copy of the article is attached, or can be found on page B6 of the newspaper.

The key message we wanted to convey is that it is always paramount to consider the whole portfolio, rather than being fixated on one single holding when it comes to managing risk.

Comments or questions welcome, as always.

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Is it a weed or a flower? Tend your portfolio

Investors must ask themselves questions before selling a stock: 'Is the story the same as when you got in?'

THE ASSOCIATED PRESS/REUTERS

Patrick Kim of Georgian Capital Partners is currently nurturing this flower in his portfolio, supermarket chain Kroger Co. seen above in Houston. John Zechner of J. Zechner Associates Inc. says McDonald's Corp. is one flower in his portfolio that could have been mistaken for a weed.

It's spring, a time for gardeners and investors to pick through their plots, isolate the underperformers and determine whether they are flowers to be nurtured, or weeds to be plucked.

Most properly diversified portfolios have at least one laggard. Every veteran money manager has faced the difficult task of determining what stays and what goes.

Investors must ask themselves some hard questions before hitting the sell button, says John Zechner, chairman and founder of J. Zechner Associates Inc.

"Act like you've never owned the stock. Look at it cleanly. Forget the history. Is it cheap and is there a potential for it turning around?" he says. "Is the story the same as when you got in? Has something fundamentally changed, or was it just wrong going in?"

In some cases the stock just needs time to flower, but in the end most are weeds that should be pulled, he says.

"Seventy-five per cent of the time cut-and-run is probably the better option. Either it was a bad assessment of the situation in the first place, or the outlook has changed and the growth profile is not as good as it was," he says. "The hardest thing to get over is admitting your initial decision was wrong."

Mr. Zechner says many investors make the mistake of falling into a value trap – buying a falling stock they believe has hit bottom, only to watch it tumble further.

One example he uses is Torstar Corp. Shares in the media company have fallen from above $20 a decade ago to below $2 today as the traditional newspaper industry withers.

"Torstar has always been cheap, but the fundamentals keep deteriorating, so it becomes one of those downward chases," he says.

One flower in his portfolio that he says could have been mistaken for a weed is McDonald's Corp. Shares in the fast-food empire traded flat between 2012 and 2015 when a new growth strategy was initiated by new management. In less than two years the stock has gone from $100 to more than $140.

Carrying the gardening analogy further, Georgian Capital Partners's Patrick Kim says many investors tend to focus too much on individual plants and not the broader garden. "I think they overemphasize the losses in one particular holding instead of thinking about their entire portfolio as a whole," Mr. Kim says.

Diversifying your investments limits risk and opens up opportunity, he says. That means not all stocks and sectors are meant to do well at the same time as long as the entire portfolio grows. "Whenever everything is going in one direction in your portfolio it's a good indication you're not very well diversified."

Like most money managers, Mr. Kim has a checklist to separate the weeds from the flowers. That includes reviewing basic details from the financial statement such as cash flow and dividend payouts.

"If those things are starting to change, that would make us reconsider," he says.

One example of a company he owned that went through a fundamental change was Northern Property REIT, which is now known as Northview Apartment REIT. Mr. Kim originally bought the apartment real estate trust because it was conservatively run with low debt.

In 2015, the Alberta-focused trust made a major real estate acquisition as oil prices, and Alberta property values, were falling.

"It really changed the profile of the company. It added more debt and the payout ratio went higher. They were becoming more aggressive and taking on more risk right at a time when their revenues were becoming more uncertain," he says. "We said, 'That doesn't fit our risk profile,' so we sold out and moved into a different apartment REIT."

One flower he's currently nurturing is the supermarket chain Kroger Co. The company's stock has dipped 20 per cent since midDecember as food deflation squeezes its profit margins.

He says the company is well run, earnings are strong and it has the ability to compete against the likes of Wal-Mart Stores Inc.

"People are just throwing in the towel on the whole industry. We're willing to be patient and build up a position because we are confident that the food-deflation story will dissipate," he says.

Separating flowers from weeds can be difficult for value investors, such as Karl Berger, who seek stocks that are already underperforming. The senior wealth consultant and director at Cidel Asset Management says patience is often required when waiting for a stock to hit bottom.

While he's waiting, Mr. Berger monitors changes within the company and the macro environment. He says weakness in a stock can often be attributed to broader market weakness.

"If we can point to a definable element that has created the move down, we're likely to be far quicker to cut the position than if it just seems like market noise," he says.

He says one holding he was ready to pluck for macro reasons in 2014 ended up flowering for company-specific reasons. Oil industry fuel-and-lubricant distributor Parkland Fuel Corp. was sensitive to falling energy prices because it owned part of a refinery and its earnings were leveraged to that refinery. "We didn't like that part of their business when we got into it," he says.

At the same time, Parkland was going through a management transition that led to restructuring. The stock has gained 50 per cent since.

"The direction that they wanted to take the company is precisely what they did with it, and it has nowhere near as much sensitivity to the price of oil," says Mr. Berger.

One recent weed plucked from the Cidel portfolio was Teva Pharmaceutical Industries Ltd. It was purchased in 2011 at $55 (U.S.) as governments were pushing toward generic drugs to reduce health-care costs. Nearly three years later it fell below $40.

"Eventually we just got tired of waiting for the thesis to play out," he says, "and we saw there was far more pressure on the generic side of things from a cost standpoint than we expected."

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