The Virtues of a Small Harem

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Warren Buffett, arguably the world's greatest stock-picker, has often extolled the virtues of a concentrated portfolio. One of his funniest analogies, particularly in view of his advanced age, is comparing his portfolio to a harem. If you have a harem of 40 women, he says, you never get to know any of them well.

Sadly, I don't have Warren's colourful turn of phrase. Neither do I have a harem, but we're in full agreement on the virtues of a concentrated portfolio. Over 90% of my portfolio is in eight stocks; more than 50% in just two, Renishaw and Phoenix Group. I know I'm breaking all the rules of investing by having so many eggs in so few baskets, but like Warren Buffett's harem, I've got to know most of them well over the years. That knowledge has proved invaluable at times, including over the last few weeks.

At the end of 2018, my portfolio was on the ropes, down almost 30% in the year. Yet despite the prevailing gloom, I was feeling good as we headed into 2019. I believed that most of my stocks were worth considerably more than their market values, thereby breaking another golden rule of investing, that the market is always right. I was confident that Mr Market would eventually see the error of his ways and agree with me – if I could only avoid having to sell at the depressed prices prevailing at year end.

Phoenix Group, I felt, was particularly undervalued. I was already heavily exposed to the stock, but I decided to back my judgement and increased my exposure still further, buying in early January at

£5.72 a share. This caused Phoenix to overtake Renishaw as my single biggest holding: I was putting even more eggs in this one basket.

My confidence wasn't misplaced. Phoenix's share price rose more than 13% in January, to £6.349 by month end. To add to the good news, sterling strengthened against the Euro, adding another 3% to the return.

My other top holdings also rose in value during January: Renishaw by more than 10% (although it has since surrendered some of the gains), Apple by 5% and even bombed-out Ryanair, by 2%.

The icing on the cake was a 7.8% fall in the share price of Tesla, in which I have a short position, so the price fall was good news. Tesla's price fell despite results for 2018 better than I had expected. I thought it could run out of cash this year, but that now seems less likely. The jury is out however on whether the good cash outcome was a consequence of good underlying performance or resulted from cutting back on research and development, from eating the seed-corn as it were. The Chief Financial Officer jumped ship immediately after the results announcement, hardly a good omen. I'm holding on to my short position for now.

I dodged a bullet with SoftBank, the Japanese telecoms/ internet investment company, in which I also had a short position. I cashed the SoftBank short in late December at ¥7,120 a share. The current price is ¥10,015, up over 40%. I dread to think what I would have lost if I had waited.

The overall result for January was a gain of 11.6% on the portfolio. I'm still a long way from clawing back the losses in 2018, but it's a good start.

It wasn't all good news in January. I sold a portion of my Renishaw holding near the start of the month at an average £39.77 a share, compared with the current £43.06. I didn't sell because I'd lost faith in the company. Far from it. Renishaw is still my second biggest holding. I was concerned however by its exposure to China, which is going through a rough patch just now. A desire to address the imbalance in my portfolio also played a role. Renishaw's results for the half-year to 31 December, announced at the end of January, came as a pleasant surprise. The company's performance in China wasn't as bad as I'd feared.

Sterling strengthened against the Euro in the month, causing me to lose money on my sterling hedge, but the loss on the hedge was more than offset by currency gains on my sterling denominated stocks.

My most painful loss was caused by an 8% drop in the share price of AMP, an Australian financial services company that I bought first in May 2018, then topped up in July following a severe price fall, in the mistaken belief that it was now a bargain. In the process, I discovered the dangers of trying to catch a falling knife.

AMP has been a disaster zone from the start. I'm sorry I didn't opt for a long courtship before committing serious money to the share. That experience has strengthened my resolve to start with a small stake in a potential addition to my core portfolio and give it time to see how the relationship develops, before making a long-term commitment to love, honour and protect. In other words, I'll stick with a small harem.