Just as it Says on the Tin

Update 9 of "Diary of a Private Investor" Colm Fagan 3 December 2018

It's been a traumatic few months for my portfolio. Its value fell by 15.8% in October, making it the worst monthly result ever, or at least the worst since I started keeping detailed monthly records from the start of 2013. October's fall came on the back of an 8% fall in September and was followed by a further 2% fall in November. Do the math. I'm a lot poorer now than I was a few short months ago.

Renishaw, which regular readers will be familiar with, was the main culprit. It fell from a high of £56.60 in mid-July to a low of £36.70 on 23 October, down 35%. It has made a partial recovery since, to last Friday's £42.82.

Renishaw wasn't my only faller, not by a long shot. Samsonite, the luggage company (see Update 4 of 11 June), was another major casualty. It fell 25% between end August and end November.

Those two stocks are at opposite ends of the world – Renishaw in the UK, Samsonite in Hong Kong – and operate in very different markets– Renishaw in precision engineering and Samsonite in luxury travel goods – but they have one thing in common: China is a major market for both. Stocks with significant exposure to China are suffering at present due to the country's economic problems. I fear that there's more bad news to come from China, so I've reduced my exposure to both stocks. Even after the sales, Renishaw is still my largest single holding.

The overall result could have been even worse, except for two recent decisions that worked out well – more by accident than by design.

Apple is one of my longest standing and best-performing stocks (first discussed in my Sunday Times column of 6 December 2015: https://www.askaboutmoney.com/threads/colm-fagans-diary-of-a-private-investor.207496/). In June 2017, I increased my holding by 50%, buying at $144.26 a share. I bought more again in January 2018 at $169.85 a share. Feelings of vertigo started in May, and I sold a small portion of my holding at $187.43. I sold further tranches at $191.95 in June, at $218.18 in August, and at $220.69 in October, ending up with slightly more than I had before the May 2017 purchases. Each sale at a higher price than the last one made me feel annoyed with myself for selling too soon. No longer. At the current price of $178.60, my decision to offload a significant portion of my holding is looking good.

I had a similar lucky escape with Tesla. As discussed in Update 2 (1 April), I opened a short position in Tesla earlier in the year, i.e. I gambled on the share price falling. At the end of September, I was sitting on a nice profit and in early October I closed 60% of my position at $266.08 a share, at an average profit of $36.44 a share. Then came a bolt from the blue. The results for Quarter 3, which were published after the markets closed on 24 October, were well ahead of forecasts, and the price was expected to jump when US markets reopened. I decided that discretion was the better part of valour and closed out most of my remaining position at $320 a share, before the market officially opened the following day. At the current $350 a share, that decision is looking good.

I still find it hard to believe Tesla's excellent result for the third quarter. My suspicions are heightened by the fact that the chief accounting officer resigned shortly before quarter end, having been with the company for less than a month. That doesn't sound good. If the rest of my portfolio were doing well, I would back my belief with money, but my current chastened self is not prepared to make the call. I've decided to hold on to my remaining short position in the stock for the time being, though.

Now that the dust of battle on the stock market has settled – for the time being at least – it's time to take stock. The heavy losses I suffered over the last few months caused me briefly to consider giving up on my strategy of investing 100% (or more) in growth stocks, and of pursuing a more conventional strategy, as recommended by the experts for someone of my advancing years. Then I did some sums and discovered that my strategy is delivering exactly what it says on the tin: significantly higher volatility but much higher returns than a more conventional mixed portfolio. Even after the recent falls, the average return on my portfolio from the start of 2013 (the date from which I have kept detailed records of cash inflows and – increasingly – outflows) has been more than 10% a year, which is probably 8% a year more than I would have earned on a bond-based portfolio. The bad news is that the portfolio could fall in value by another 24% before breaching my long-term target of a 7% annual return. A messy Brexit – even messier than the one we're already almost guaranteed – could leave me close to those levels. Not a happy thought.