Punched in the Mouth

Update 8 of "Diary of a Private Investor"   Colm Fagan   14 October 2018

Mike Tyson, the former world heavyweight boxing champion, famously said that everyone had a plan till they got punched in the mouth. I had a plan and yes, I got punched in the mouth. Actually, a barrage of punches.

As regular readers know, the core of my plan is to eschew so-called "safe" investments: I have no bonds and just enough cash to meet short-term liquidity needs. Everything – actually, by utilising leverage, more than everything – is in equities. The reasoning is simple: I expect to earn 6% a year on average from equities, compared with 2% (or less) from bonds and cash. I hope to be around for a while yet, possibly 15 years or more. Over that timeframe, an extra 4% a year will add more than 100% of its current value to the portfolio. Not to be sneezed at.

Share prices can fluctuate wildly. To prevent me from getting too excited when market values rise or too depressed when they fall – to "treat those two imposters just the same" - I have devised a smoothing approach that helps me to cope with fluctuations in the value of the portfolio. My long-term spending plans are based on smoothed values rather than market values. Of course, any sales to meet cash outflows – and sales are a regular occurrence now that I'm firmly in drawdown mode – must be at prevailing market prices. Over the last few years, the ratio of smoothed to market value has ranged from a high of 120% just after the Brexit referendum in Summer 2016, when market values collapsed, to a low of 75% in January this year, when the market was euphoric over the impact of Trump's tax cuts. As recently as early June, the smoothed value was 85% of market value. Everything in the garden seemed rosy.

Then came a hefty punch in the mouth. The word "Renishaw" was emblazoned in big red letters on the glove.

Renishaw, a specialist engineering company with its headquarters in Gloucestershire, is my longest-standing and largest single holding. I bought my first shares in the company in 1998, at £4.05 a share. It's my one and only "ten-bagger", defined as a share worth ten times what was paid for it originally. It now accounts for more than 25% of my total portfolio.

Results for the year to 30 June were published on 26 July. The market liked what it heard and the share price, which had been rising steadily for weeks, reached a closing high of £56.60 the following day. I took advantage of the price rise and sold just over 10% of my holding at an average of £56.20 a share.

Then the price started falling. I wasn't worried as I still considered it a sound investment. In fact, when the price fell, I couldn't resist the temptation and bought back around a third of what I'd sold, at an average price of £51.13 a share.

Then, for no apparent reason, the price kept falling. It was down to £47.40 by the end of September and there was no respite as we moved into October. By 5th October it was at £45.56 and by Thursday last (11th) it had dipped below £40 a share - a fall of almost 30% from the July high. No wonder I was left reeling. On its own, the fall in Renishaw's share price caused a 7.5% fall in the value of my total portfolio in just two months.

More worrying in some ways is that there is no apparent reason for the fall, other than general market malaise. The company has said nothing. The latest we have is the chairman's July statement that the directors remain confident in the company's long-term prospects.

I'll find out soon if there's bad news that no-one's telling me. The AGM is on Thursday next (18th October) in the beautifully named Wotton-under-Edge, in the heart of rural Gloucestershire. I've booked my flights and plan to be there to hear the news: good, bad or indifferent. I also plan to speak at the AGM; the subject of my planned contribution may get a mention in a future diary update, but not now.

There was more bad news as I clung to the ropes, groggy from the Renishaw punch. Ryanair, which accounts for over 12.5% of my portfolio, is down 17% from the price at which I increased my holding only a few short weeks ago. In Ryanair's case, I feel the pain more to my pride than my wallet: my diary update in September told why I thought it was a good buy at €13.79; it's now down to €11.46.

I have managed to land the occasional counter-punch on Mr Market. My short position in Tesla, mentioned first in Diary Update Number 2 of April 1st, is looking good. I've cashed some of my Tesla profits but I'm hanging on to the bulk of my short position in the stock, in the hope of further price falls.

Last week, the market mayhem extended to most of my other holdings. It was particularly bad on Wednesday and Thursday last, when global markets fell sharply. I limped back to my corner at Friday's closing bell, mauled but still standing.

I have used the weekend to take stock of where things stand now, and where I go from here, if the carnage continues into next week. The fall in market values means that the smoothed value of the portfolio is now back above 100% of market value, but the ratio has been higher in the past, and on each occasion it's come back to breakeven relatively quickly. I'm hoping for a similar result this time.

I believe that all my holdings represent good long-term value at their current prices, so I'm not too worried. I have a hefty tax bill coming up shortly, though, and will need to sell some of my shares. I'm also conscious that the Brexit negotiations are entering a crucial stage (again!) and there is a risk of things turning nasty if the talks go off the rails. I hate selling when prices are down, but it must be done and it's probably best to take the hit sooner rather than wait and hope that they'll have recovered by the time I need the money. I plan to keep sales to the minimum, however, and to hunker down until the storm blows over.