Diary of a Private Investor Update #4 11 June 2018

Man overboard but shipwreck averted

May: what a month!

In brief, excellent results for two of my long-time favourites, Renishaw and Apple, were almost undone by a near disaster on another of my holdings, Samsonite.

Renishaw is my only ten-bagger. My first investment in the company was 20 years ago, at £4 a share. The price is now more than ten times that – with the bonus of dividends landing in my bank account every half-year in the intervening period. Over the 20-year period, I've used temporary price dips to increase my holding, to the stage where Renishaw now represents more than 25% of my gross portfolio before borrowings, a significantly higher percentage of the portfolio's value net of borrowings.

Every year, in May, the company hosts an Investor Day at which it showcases its latest inventions. I enjoy attending these events, which are normally held at the company's Head Office in rural Gloucestershire, to meet with the Board and management and with other long-term investors. Unfortunately, other commitments meant that I was unable to attend this year's event.

A stockbroker's report on Renishaw landed on my desk a week before this year's Investor Day, with a "sell" recommendation. After reading the report, I concluded that the analyst had underestimated the company's prospects in key growth areas, particularly in additive (3D) manufacturing, so I decided not to act on his recommendation. My faith in the company was rewarded: the market liked what it heard on the day and the share price increased by almost 15% in the month, to £53.80 by month end. Renishaw's performance alone caused an increase of almost 6% in the value of my total (net) portfolio in the month.

Apple Corporation is another of my long-time favourites. I took my first bite in December 2012 at $73 a share (the actual share price at the time was $511 but a share split gave me seven times as many shares). It now represents close to 9% of my gross portfolio. The share price increased 13% in May, to almost $187 by month end, contributing another 2.3% to overall portfolio performance.

With Renishaw and Apple performing so well, and others of my top holdings not doing badly either, May was heading to be one of my best months ever, with total growth of more than 9%. Then disaster struck.

The first inkling of trouble came before European markets opened on the morning of 24 May, just as I was preparing to head off to the US on holidays. I received a notification that Samsonite's share price had fallen more than 10% in overnight trading in Hong Kong, with the additional bad news that trading had been suspended mid-morning, to reopen the following morning. I discovered later that a short-seller had accused the Board and management of questionable accounting practices and poor corporate governance and claimed that the company was only worth HK$17.59 a share, almost 50% less than the prevailing valuation. I had a sizeable long position in Samsonite and a 50% price fall could cause the total value of my portfolio to fall by more than 7%, wiping out most of the gains in the month on my other holdings. I was worried as I headed through US Immigration Control at Dublin Airport.

On the other hand, why should I believe a short-seller who was out to make money by causing a sharp fall in the share price?

I pondered my options as the plane skirted by Greenland. I purchased some in-flight Wi-Fi, looked again at the latest set of accounts, and eventually decided to part with just 11% of my holding, and to hang on to the other 89% in the hope of eventual recovery. The partial sale went through the following morning (Hong Kong time) at $27.06 a share. Then, at the end of the day, trading in Samsonite was suspended again – at HK$26.51 – and remained suspended for the rest of the month.

Days went by with no meaningful response from the company to the short-seller's allegations. The longer the delay, the more I regretted not offloading my entire shareholding when I had the chance. May 31 came and went; still no reply. At what price should I include the remaining Samsonite shares in my end of month portfolio valuation? If the company didn't come up with a satisfactory response, the true value could be considerably less than the HK$26.51 at which they last traded. Lacking any better information, I decided to include them at this price in my valuation. This resulted in an overall portfolio gain for the month of 5.2% – a great result in the circumstances, if I managed to avoid a meltdown in the value of my Samsonite holding.

Finally, the company issued a statement on the morning of June 1, the day before I was due to come home from my vacation in Charlottesville and Washington. The market decided that the responses to the short-seller's allegations were satisfactory and the share price jumped more than 10%, but not quite back to its level before the report was issued. I was relieved that my decision to hang on to the bulk of my holding had been vindicated.

As far as I can gather, the only serious casualty from the entire affair was the Chief Executive, who had apparently claimed on occasion, or had allowed others to believe, that he had a doctorate when he hadn't. He wasn't the first and definitely won't be the last senior executive in an organisation to embellish their CV. He resigned as CEO and from the Board, to be replaced by the Chief Financial Officer.

For me, the close shave has caused me to reconsider aspects of my approach to investment. More will be revealed in due course on the outcome from those deliberations.