Shelling out on a tortoise

Colm Fagan **Diary of a Private Investor** **Update 15** **4 July 2019**

> ***Speed read:***
> ***This month's update looks first at the main contributors to the investment return achieved in the first half of 2019. Then, after recalling past failed efforts at diversification, it tells of my latest attempt to add to my core portfolio. I've decided to put my faith in a Danish pharmaceutical company which has developed a pill for diabetes, whose shape was inspired by the shell of the leopard tortoise.***

The good news from reviewing the performance of my investments in the first six months of 2019 is that they delivered a return of 17.2%. The bad news is that there is still a long way to go to recoup the 28% loss incurred in 2018.

Phoenix Group Holdings was the star performer. At end 2018, it was my second biggest holding, at 25% of my total portfolio. Its share price rose 26% in the first six months. There was also a half-yearly dividend of 4%. After some additional share purchases, Phoenix Group is now my largest investment, at 32% of my total portfolio. On its own, it generated more than 10% of the 17.2% return in the half-year.

Renishaw, which was my largest holding at the end of 2018, was down to second place by end-June. Its share price marked time, while most of the others rose in value. I also offloaded 11% of my shares on fears of a slowdown in China, one of the company's biggest markets, and on concerns that Renishaw has lost some of its innovative edge. Allowing for the half-yearly dividend, Renishaw made a marginal positive contribution to the overall return for the half-year.

Apple, my third largest holding, was the second-best performer. It generated 3.2% of the total 17.2% return, thanks mainly to a 25% increase in the share price. I got a touch of vertigo in June when I saw the share price rising sharply over a short period and sold a fifth of my holding, but Apple is still my third biggest exposure. As an aside, I would now be better off if I hadn't sold when I did: the share price rose even further after the sale.

Ryanair was the black sheep, the biggest loser in the portfolio. Its share price fell more than 6% in the half-year. I made things worse by adding to my holding at prices above those ruling at either the start or end of the period. Despite the purchases, Ryanair fell from being my fourth largest holding at 31 December to the fifth largest at 30 June. It contributed a negative 0.6% to the overall return for the half-year.

As regular readers know, my portfolio is very concentrated. More than 80% is in just five stocks, four of which are the ones mentioned above.

From time to time I have tried to add to my "harem" of core holdings, with little success. At one time, Samsonite, the Hong Kong quoted luggage company, was my "great white hope". As recently as January 2018 it was my fourth largest holding. I eventually concluded that I had backed a loser and sold my entire shareholding at an average HK$24.63 a share, more than HK6$ a share less than I had paid originally. I was lucky to get out when I did: the price is now down to HK$18 a share.

It's much the same story with WPP. My misfortunes with WPP are recounted in Diary Update 3 of 8 May 2018 http://www.colmfagan.ie/documents/19_Document.pdf At one stage WPP was my sixth largest holding. I sold my entire holding at an average £12.67 a share, almost £4 a share less than what they cost me. The loss was painful, but it would have been even more painful if I had struggled on rather than take my medicine: the price is now under £10 a share.

From time to time, I am sorely tempted to give up trying to add to my portfolio and to stick with the stocks I know. They have rewarded me well in the long-term: over the last five years, the average return on the entire portfolio was 9.8% per annum. It would have been higher if I had stuck to the core stocks and hadn't been tempted by the siren calls of Samsonite, WPP and a few others.

Nevertheless, I keep trying to find the next Renishaw, the next Apple, the next Phoenix Group Holdings. Hope springs eternal.

Novo Nordisk is a Danish pharmaceutical company, which specialises in treatments for diabetes. It ticks a good number of boxes in relation to what I'm looking for in a share. It improves the geographic and industry distribution of the portfolio: I don't own any other pharmaceutical or healthcare stocks. The potential market for its products is huge: over 415 million people or one-tenth of the world's adult population suffer from diabetes. Approximately 90% of them have Type 2 diabetes, which is becoming more prevalent as obesity levels increase.

I like the company's financials. It has a strong balance sheet, virtually no debt and billions in the bank. It generates lots of cash, some of which it uses to buy back shares, which it then extinguishes. Continuing shareholders get a bigger share of the pie every time the company extinguishes shares. The earnings yield of 4.8% at the DKr335 share price ruling at 30 June is attractive, given my positive views on the company's prospects.

One of its most exciting prospects is a pill that Novo Nordisk has developed in conjunction with MIT. The pill's shape is inspired by the leopard tortoise, an African species of tortoise. The leopard tortoise has a deeply domed shell which enables it to right itself when put on its back. The idea with the Novo Nordisk pill, which could take up to ten years to reach the market, is that the pill will lie on the base of the stomach with its dome facing upwards. There is a needle in the other side, made of compressed insulin. There's enough water and acid on the floor of the stomach to dissolve the plug of sugar that holds the little needle of insulin in place, so that the insulin goes into the lining of the stomach and then into the bloodstream. If the design proves successful, it could mean that diabetes sufferers will no longer have to inject themselves with insulin every day.

I bought my first shares in Novo Nordisk in September 2016. I bought heavily in the first half of this year, almost trebling my holding. It is now my fourth largest holding, after Apple in third place but ahead of Ryanair in fifth position.

This time, I hope that my luck has changed, that I will avoid a repeat of the misfortunes I experienced with Samsonite and WPP and that Novo Nordisk's tortoise will start shelling out for me – provided I'm still around when its pill finally comes to market.