

A very rude awakening

Accused of stockpicking cowardice, our resident share sleuth **Richard Beddard** explains why he has shied away from some monumental winners



This month, a garrulous message left on the Interactive Investor blog, where I chronicle the management of the Thrifty 30 portfolio, inspired me to reconsider some of my decisions. My critic reckons I was wrong to avoid peat supplier William Sinclair two years ago.

On the face of it, he's right. Sinclair's price has trebled, and his conclusion, 'maybe you just don't know what you are writing about', seems unavoidable.

But I stand by my decision. I thought the company too risky. It was facing competition from eco-friendly peat-free fertiliser, falling profits and deteriorating financials. Had I been running the Thrifty 30 back then, I would have excluded it because it didn't match my template for good investment.

I'm looking to include sound businesses, with strong finances at very cheap prices, and I wasn't confident William Sinclair was any of those.

Another company that 'got away' is XP Power, and this time my comeuppance came in a telephone conversation with a colleague. I added XPP, a maker of power adapters, in March 2010 and removed it in August, making a profit of 68 per cent after costs. Of course, that's a great return over an uncharacteristically short period, but since August the price has doubled again so my colleague, who held his nerve, has done much better.

The market was valuing the company at over 20 times average earnings (see 'XP cut after power surge', *Money Observer*, October 2010). But average earnings is an unreliable method of valuing a fast changing company because future earnings, the ones we really care about, may bear little relation to earnings in the past.

The problem is, I don't know a reliable method of valuing rapidly growing companies because the case for investing in them depends on future growth exceeding investors' already high expectations. How to measure that growth, when it has yet to happen and the company is changing so fast, is beyond me. My instinct is to abandon companies when the tools I use are no longer much use.

I mention these two stories because my correspondent made a good point, rudely. I probably don't spend enough time learning from past trades. But forced reflections on William Sinclair and XPP remind me of Benjamin Graham, for whom most individual shares were speculative: 'An investment operation,' he wrote, 'is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.'

Note he talks of an investment operation. You can't judge an investor by a single investment, you can only judge him by the totality of his decisions over a long period of time.

If my correspondent returns in four or five years, we can see how the Thrifty 30, my investment operation, has done.

THRIFTY 30 INCHES HIGHER



HOW EACH OF THE SHARES IS PERFORMING

Name	Shares	Price (£)	Cost (£)	Value (£)	Return %
Alumasc	938	1.57	999	1,468	47
Armour	21,278	0.08	2,250	1,755	-22
AutoLogic Holdings	3,517	0.22	1,000	756	-24
Castings	515	2.81	999	1,445	45
Clarke (T)	706	1.00	1,000	706	-29
Dart	1,824	0.94	1,000	1,715	71
Dewhurst	735	4.00	2,244	2,940	31
French Connection	2,310	1.23	1,000	2,830	183
Games Workshop	348	3.78	998	1,314	32
Haynes Publishing	539	2.33	999	1,253	25
Holders Technology	1,437	1.19	999	1,710	71
International Greetings	1,696	0.74	1,097	1,255	14
Johnson Service	5,035	0.35	1,000	1,750	75
Mallett	1,591	0.74	1,000	1,169	17
Northamber	2,276	0.61	1,200	1,383	15
Northgate	511	3.12	1,099	1,592	45
Printing.com	2,940	0.36	1,000	1,058	6
Quadnetics	643	1.70	999	1,093	9
Ricardo	386	3.82	999	1,474	47
Solid State	1,950	0.84	1,000	1,628	63
Thorpe (F W)	166	7.30	1,193	1,212	2
Titon Holdings	2,493	0.53	1,000	1,309	31
Trifast	3,112	0.42	1,130	1,303	15
Waterman	2,431	0.49	1,000	1,191	19
Total current holdings			27,202	35,308	30
Cash				4,947	
Total portfolio			30,000	40,255	34

Notes: £10 broker fee charged for all transactions and 0.5 per cent stamp duty for purchases. Cash earns no interest. Dividends and sale proceeds are credited to the cash balance. £30,000 invested on 9 September 2009 was worth £40,255 on 1 March 2011. £30,000 invested in a FTSE All-Share ETF was worth £37,253 (dividends reinvested). **Objective:** To beat a FTSE All-Share ETF handsomely over any five-year period **Source:** Sharescope, 1 March 2011

THRIFTY 30 UPDATES

It's easier to write about companies that 'got away' this month because the Thrifty 30 is prospering thanks to French Connection, one that didn't get away.

Its price is up 180 per cent since I added it to my investment operation. There were no changes in February, but I'm currently investigating textile importer Leeds Group. <http://blog.iii.co.uk/tag/ldsg/>

FOR A FULL EXPLANATION OF WHY I ADDED OR REMOVED EACH COMPANY, SEE:

Armour: <http://blog.iii.co.uk/tag/amr/>
Dewhurst: <http://blog.iii.co.uk/tag/dwht/>
RM: <http://blog.iii.co.uk/tag/rm/>
Titon: <http://blog.iii.co.uk/tag/ton/>