# Should I sell my Naspers shares?

The above question about Naspers or similar questions about big positions in single shares is one that often comes up. The answer to this raises another question. Do you want to take the best course of action or do you want to take the course of action that results in the best outcome? When people are asked this, they tend to want the latter. In other words, they want to ride the wave to the top and sell high. If that is the case, there unfortunately is no answer.

One area where people struggle to think rationally is where they inherited or received shares for free. Examples of this are Sanlam and Old Mutual shares (with the demutualization), Pioneer (many farmers received these because of their membership to corporations), Naspers, Remgro & Richemont (inheritance mostly) and of course shares in the company you work for, assuming it is a listed company. I have written many times in the past about cognitive biases that at times can hinder our decision-making processes. The big 3 that are at play here are 1) the endowment effect, where you attach more value to something merely because YOU own it 2) status quo bias, where you would rather do nothing than risk doing the wrong thing (especially if what you have been doing has worked well) 3) linear thinking, where you simply take historical performance and extrapolate it into the future indefinitely.

The principal you need to keep in mind to make a good decision about whether to keep, to sell or to partially sell these shares is the clean slate approach. Allow me to explain. If you received the news today that you inherited R 1 million from a distant relative, what would you do? If you decide to invest it all (assuming you have no debt to settle) we can assume you would thoroughly research the available options to determine what would be the most suitable investment for your money. I want to say with almost 100% certainty that the chances that you would take that R 1 million and invest in a single share (any one of those mentioned earlier or any other) is extremely small.

Why then, is that exactly what people do who inherit these shares instead of a cash equivalent amount? The fact that you have it now does not mean you should just leave it that way. You can sell a part thereof and diversify into other opportunities. Now here is where hindsight bias comes into play. Take a share like Naspers. If you inherited a bunch of Naspers shares years back and your financial adviser told you 5 years ago to sell 80% or 90% to diversify your portfolio, you would probably want to run him over with your car if you saw him walking in the street. But was his advice wrong? **The fact that the outcome was much less favorable does not mean the decision/advice at the time was wrong.** Never assess the quality of a decision (good or bad) on the outcome because it could have just as easily been totally different.

Pioneer is a good example to illustrate this point.

See the share price now (16 October 2017) and over the previous 5 years on a similar date. Between 2011 and 2014, this share experienced growth of astronomical proportions and the average growth on 16 October 2015 for the preceding 3 years was 54% per year. After 2 years with declines of 17% and 28% respectively, the share price is back to 2013 levels and the average growth came down from 54% to 17% per year.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.
☎ +27 (0) 21 850 0471 info@proverte.co.za

| Date | Start price | End price | Price movement | Growth for the previous 12 months | Average growth |
|---|---|---|---|---|---|
| 2012 | 5555 | 8444 | 2889 | 52% | **52%** |
| 2013 | 8444 | 11315 | 2871 | 34% | **43%** |
| 2014 | 11315 | 20347 | 9032 | 80% | **54%** |
| 2015 | 20347 | 16793 | -3554 | -17% | **32%** |
| 2016 | 16793 | 12143 | -4650 | -28% | **17%** |

After the first year, your choice to diversify would have been extremely unpopular, the same after 2 years and by the end of the 3rd year you would have been too embarrassed to touch the subject. However, after year 4 and 5 you would have seemed like a wise investment guru.

Let's say that after year 5 you have a big exposure to Pioneer (you can replace with Naspers, Richemont, Remgro etc., the same would apply), what do you do NOW? Do you sell NOW and diversify or do you wait for the share price to recover? You can see that you will once again face a decision-making dilemma. Again, I believe the clean slate approach is to be applied to the situation despite what happened over the last 12 months. If someone were to give you that amount in cash TODAY, what would you do with it? Would you invest in that share at current market price? Most probably not. You might want to hold on to a bigger portion because the share may be theoretically undervalued now but this should be a conclusion based on analytical research, not by default just because the share price declined.

There are other considerations to take into account such as Capital Gains Tax but this, in my opinion comes second to long term meaningful portfolio construction.

Let me state this unequivocally: No-one knows what is going to happen to the share price of Pioneer (or any other share price) over the next 12 months. We could easily sit with a share price that is 50% higher than it is now or one that declined even further by this time next year. The point of this article is not to say that there is no such thing as meaningful forecasting but that a proper process has to be followed when it comes to organizing your investments and finances. If you apply this process consistently and consciously you should end up in a satisfactory position without ever having to take too much concentration (putting all your eggs in one basket) risk.

*Andró Griessel is a certified financial planner and the managing director of ProVérte Wealth & Risk Management. Follow him on Twitter @Andro720911. He writes twice a month for Netwerk24.*