INVESTING

The investment mistakes that lost experts millions

Picking stocks is tough, especially when you are starting out. Here, six experts tell David Brenchley about their early, and expensive, errors

David Brenchley

Sunday December 31 2023, 12.01am, The Sunday Times

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'I bought RBS shares in the financial crisis'

Zoe Gillespie, an investment manager at RBC Brewin Dolphin

In 2008 I decided to buy shares in Royal Bank of Scotland with funds I had been saving to buy a flat. The share price had fallen about 40 per cent through 2007, and I saw this as an opportunity to boost my savings pot and speed up the house purchase.

Unfortunately the share price continued to fall. When RBS said that it needed to raise more money through a rights issue they fell even further. What did I do? I doubled down and bought more.

Zoe Gillespie lost most of her savings after doubling down on RBS shares

Despite having seen the collapse of Northern Rock and Bradford & Bingley I thought RBS was too big to fail and believed in the turnaround story. Eventually I decided to admit my mistake and sell, losing most of my savings in the process. What had taken me years to accumulate was gone in a matter of months. The only consolation was that the share price continued to fall, and, 15 years later, it still isn't back above the price that I sold at. RBS has since been rebranded as NatWest. Its shares fell from a high of about £65 to about £2.20 today.

The experience taught me a few valuable lessons, but mostly the importance of diversification to spread risk, and to never invest for the short term to make a quick buck.

'I thought it was the best business I had seen'

Keith Ashworth-Lord, the chief investment officer at Sanford DeLand Asset Management

When I was working as a self-employed consultant one of my clients was a local funeral director, and I noticed that the industry had great economics — prices went up every January and sales never took a hit. You don't query the invoice when you're burying your nearest and dearest. It was the most price-inelastic business I'd clapped eyes on in my life.

So when the funeral group Dignity listed on the stock market in 2004 I bought shares in my personal investment account and I did very well out of it.

Keith Ashworth-Lord wouldn't pay £7 for shares that hit £29 two years later

When I launched the SDL UK Buffettology fund in March 2011 I considered investing in Dignity through the fund, but I didn't buy because the share price had bolted to £7. It looked a bit pricey, and I thought I'd hold off and see what happened. The share price doubled within two years, eventually peaking at almost £29 in 2016.

If I'm brutally honest, I'd taken my eyes off the industry. In November 2017 Dignity put out a profit warning, saying that fewer people had died. Its shares dropped by a third, and muggins here thought: now's my chance. I bought it when shares were £16.

Two months later came a second profit warning, when Dignity said that it would have to slash prices. The advent of online price comparison websites meant that people could find the cheapest funeral director in their local area. Shares more than halved, and I ended up selling six months after buying at a loss. I would describe that as my worst mistake because it was my fault and it was avoidable.

• [From helium to graphene: my 2023 Cowie clangers]

'I overlooked the amount of debt the firm had'

Preeti Rathi, an investment director at Investec Wealth & Investment (UK)

Ideally I would invest in a firm with a proven track record, strong cash flows and decent liquidity, but with 4D Pharma I made the classic investment mistake of falling in love with the company.

Preeti Rathi says love of a company make her overlook $13 million of debt

I am fascinated with the human microbiome. So, in 2018, when I saw a research note on a biotech firm listed on the Alternative Investment Market that was apparently harnessing the human microbiome's therapeutic potential, I invested in my personal account.

4D Pharma was using human gut bacteria to treat common diseases that had no cures, such as irritable bowel syndrome and some cancerous tumours. The firm had been making good progress, collaborating with the German pharmaceuticals giant Merck and landing a secondary listing on America's tech-heavy Nasdaq index.

But I overlooked the fact that it had racked up debts of $13 million in the process, despite not having enough cash coming into the business to service that debt. Although 4D Pharma had low debt at the time of my purchase I shouldn't have allowed the story and the allure of future cashflow to overshadow the amount of debt that might be needed for growth.

The company went into administration in June 2022 and shares were suspended. I lost all my money. Fortunately it accounted for only 2 per cent of my portfolio.

'The director couldn't even unlock the meeting room, how could he run a company?'

Nick Greenwood, the fund manager of MIGO Opportunities trust

In 1992 the broadcaster Television South West undertook a reverse takeover with White Ward Group, which made boots for the British Army and steel-toecap boots for industrial companies. The firm was renamed UK Safety, looked cheap and had a war chest of cash that it could invest into the business if it wanted to.

Nick Greenwood's investment halved in value

I went to Bristol for a meeting with the finance director, only to be told that the receptionist hadn't heard of him. Once they did find him he took me to the meeting room but he couldn't find a key and then he couldn't unlock the room. Really, at that point, I should have known. If they can't organise this meeting how on earth are they going to organise a business and a factory? But I ended up investing at a share price of about 60p.

The share price had fallen to about 30p by the time I sold out, and the company eventually went into administration. It shows the importance of having a physical meeting at the company. Sadly, on that occasion I probably wasn't experienced enough to understand the red flags and the warning signs.

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'I underestimated the risks'

Charlie Huggins, head of equities at the fund manager Wealth Club

Provident Financial (now Vanquis Banking Group) was a sub-prime lender, charging high interest rates to people on low incomes or with a poor credit history who wouldn't normally have been able to borrow.

Charlie Huggins thought shares in a sub-prime lender would be a good bet, but didn't really look at the company

In March 2017 I thought the stock looked like an attractive investment. It had a very good track record of profit growth, dividend payments and of generating high returns on equity for many years. I bought shares for about £20.

A couple of months later Provident's shares fell after it said that there had been problems with the transformation of its doorstep lending business. I decided to give management the benefit of the doubt and held on, only to suffer through a second profit warning in August 2017. This time Provident said that the Financial Conduct Authority, the City regulator, was investigating Vanquis Bank, another of its divisions. It also scrapped its dividend. I sold after this, with shares trading at £5.50 — a loss of about 70 per cent.

I had underestimated a plethora of risks, from the strength of Provident's balance sheet to the risk of transforming the business, and the skill and integrity of the firm's management team. I probably paid too much attention to the valuation and not enough to the business itself. I was more attracted to the stock than the business. It was just a comedy of errors really.

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'I was told to buy Vodafone shares, so I did'

Nick Clay, a portfolio manager at the investment firm Redwheel
In 2000 Vodafone was the darling of the UK stock market. Its $183 billion deal to buy its German competitor Mannesmann, which remains the largest acquisition ever, doubled the firm's size, and it become the sixth largest company in the world.

Nick Clay's decision lost his £22 billion equity fund a lot of money

At the time I was running a UK equity fund at Morley Investment Management, then the investment arm of the insurer Aviva. Vodafone was already the biggest position in the £22 billion fund, but the risk management systems that we had recently started using told me to double the position because we were underweight compared with the market.

Being young, naive and not experienced enough to stand up to these things that's exactly what I did. It is by far and away the most costly mistake that I made with clients' money and I wish I hadn't done it.

I bought more shares when they were about £5.68 and Vodafone soon accounted for about 13 per cent of the fund portfolio. By the time I left the firm at the end of that year shares had fallen to below £3. They are now about 68p.

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Tom Treanor

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David Tower

31 DECEMBER, 2023

After twenty five years of investing in the stock market I have found that I have a unique power to control share prices. Within hours of buying shares,the price drops and within hours of selling, the price increases. Somehow ,I have learned to live with the frustration.   :)

(Edited)

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S Armstrong

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S Armstrong

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This story confirms how hard it is to beat a low cost world index tracker fund

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A

Alexandra Telnikoff

2 DAYS AGO

Not disagreeing, but a lot of investors look at other aspects & sometimes give them higher priority than the 'beat'. Efforts involved. Time involved. Piece of mind involved. Audit & administrative complexity involved. I would be more happy to get a guaranteed hands free 5% PA on a capital of 500m t...

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R Aspinall

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I always liked fund manager Anthony Bolton's quote about investing in something you understand. He saw retired engineers losing their shirts by investing in startup stem cell biotechs and then retired doctors losing their fortunes on mineral miners.
My biggest loss was buying into digital music stre...

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The 2 most important rules of investing:

1. Diversity is key
2. Never buy something you don't understand

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Michael Morgan

2 DAYS AGO

Rule 6: avoid catching a falling knife
Rule 7: sell if the price has dropped 90% because it's going bust

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T Nicholson

2 DAYS AGO

Fair play to these guys for being honest, the Vodafone tale is in particular a great example. We've all made investing errors. Personally I probably overlook great opportunities by having a strong preference for proven biz models that generate cash and dividends and then hold them; the trouble with...

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Andrew John Davies

2 DAYS AGO

Didn't you think having bean bags and a pool table in an office was revolutionary??? It seems many did.

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Tom Bulford

2 DAYS AGO

I agree. Companies get into trouble because they cannot service their debts. Positive cash flow is essential.

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Mo Lawson

31 DECEMBER, 2023

These may have a job as investment managers, but they won't be managing any of my money. There are plenty of decent fund managers out there, and the main job in managing your money is to find people who know what they're doing. This lot have explained why they are amateurs. Do you own research t...

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A Irwin

31 DECEMBER, 2023

An experienced investor knows that the tales above are honest. Only the rookie or dishonest investor denies having made any mistakes.

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L de Medici

2 DAYS AGO

There is such a thing as genuine investment expertise. As many as 10 people in the world may possess it. The rest are making a phenomenal living from being bang average. Just buy a spread of low-cost ETF's and get on with your life.

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Peter Wookey

2 DAYS AGO

In all the areas of human endevour, from painting, to sport to writing, there is a range of human ability. It would be odd if investment did not also throw up those who are more talented than others. So I am pretty sure that some investors are better than others. But I have concluded it is nigh on ...
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andrew clark

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Or use inside knowledge.

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Chris Ainsworth

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Curious to see these experts admit their mistakes but they're still in their jobs. Mine? Bought Games Workshop at £5, sold at £10. Where are they now? £98!

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Tom Bulford

2 DAYS AGO

All investors make mistakes. The smart ones learn from their mistakes. You don't have to get everything right to be successful, just be right more often than you are wrong

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J **j snooks**

2 DAYS AGO

I was always told not to be too greedy and leave some profit for the next man. Maybe not as much as you though..,

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S **S Phillips**

2 DAYS AGO

Good, interesting and helpful article. More of this please.

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A **Alexandra Telnikoff**

31 DECEMBER, 2023

'Risk managing system told me to double my position' - this must be a very unorthodox risk management system indeed. Was it greek or historical VaR based, I wonder?

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E **Ed Lorenz**

2 DAYS AGO

No...it would have been a Tracking error based risk system...where being underweight a large index constituent would have been a significant contribution to Tracking Error vs. the benchmark index.

Once again you demonstrate that a little knowledge is a dangerous thing.

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R **robert storey**

31 DECEMBER, 2023

This seems to be another example of the modern vogue for bragging about failures as if there are some sort of badge of honour rather than evidence of foolishness.

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