



Fisher Funds

Investor Education Centre

*Making investing enjoyable, understandable
and profitable...*

Act in haste, repent at leisure

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There are all sorts of clichés about time – time heals all wounds, give it time, time in (the market) matters more than timing – and generally speaking when it comes to investing, it is best to take your time when making decisions.

It often surprises me how readily investors will sell at the first offer or at a slightly higher price, without stopping to think about whether it really is the best decision to make.

We read in December about the activities of Bernard Whimp as he offered to buy shares in listed New Zealand companies at a significantly lower price than they could be sold at on the share market. Hopefully few investors succumbed to his offers, but there will be some who were tempted to sell, particularly when his letter used terms like “act now” and “first come, first served”. These phrases imply that you might miss out if you don’t act quickly, but the reality is that an investor will seldom miss out if they take a little time to really assess the merits of an offer.

The same phenomenon is seen around takeover offers. If someone launches a takeover offer for a company, chances are their first bid is not the best offer they are prepared to make – you never offer your top price at the outset. So it is far more sensible for investors to wait until the closing days of the offer before deciding what action to take.

Waiting gives investors a chance to think about whether the offer is a fair price and truly represents what the shares are worth.

Waiting also allows investors to see how other investors feel about the offer. If the majority of investors (especially professional investors) think the offer price is a good one, chances are the takeover will become compulsory and you will receive the offer price along with everyone else.

I have been interested in the offer made by the Michael Hill family in late December to increase their shareholding in Michael Hill International from 47.6% to just over 50% of the company. The family’s holding company offered to pay shareholders 90 cents per share, representing a 5% premium to the prevailing share price, for 5% of their holding. My first reaction to the offer was to say no because a 5% premium is not enough to tempt me. Also, if the Hill family like the company and its prospects enough to offer a premium price, why would I want to reduce my holding? It is usually a positive sign when “the insiders” buy more shares.

The offer is still open to shareholders and time has worked in their favour.

Last week Michael Hill came out with an improved profit guidance for the half year (quite an achievement given the tough retail environment). The share price immediately jumped to 90 cents and has stayed around that mark since.

So the 5% premium has disappeared in the space of three weeks and the family might now have to sharpen their pencil if they want shareholders to sell.

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