



# Fisher Funds

## Investor Education Centre

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### **Knowing when to sell a crucial point**

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Over recent weeks we have heard supporters of Allan Hubbard plead with investigators to back off and give him a fair go. One of the biggest arguments in support of Mr Hubbard is essentially that he is such a nice man.

I have no view about Mr Hubbard, though the whole situation is unsettling. It is an example though of how our decisions can be influenced by how we feel about people.

It is known as familiarity bias.

Once we feel familiar with a person, having met them or spoken with them or even heard somebody else speak favourably about them, we tend to give them the benefit of the doubt. And if we like them, we want to believe them, making it even harder to be objective.

When it comes to company analysis there are two schools of thought around the value of getting to know management.

The first is that investors should never talk to company management to decide whether a stock is good or not, because they will be swayed or seduced by management and will not be able to complete objective analysis.

The second is that you should speak to management whenever you possibly can because that's the only way you can get to know a business well and make informed investment decisions.

The late Walter Schloss, a successful US value investor, is a good example of the first approach – in fifty years of investing he never visited a company or talked to management. Peter Lynch, on the other hand, is a well-known investor who insisted on meeting management, visiting 300 companies in a year.

Both Schloss and Lynch produced excellent long-term returns for their clients, suggesting that both approaches work.

I am well aware of the dangers of familiarity bias.

Once you have met a chief executive, understood his business strategy and then seen him deliver great results, it is hard to be critical.

Chief executives can be charismatic and great communicators, and they know how to tell a good story about their business. Rarely does a chief executive tell you about the problems the business faces, or areas of weakness within the company.

But just because a chief executive might give you a rose-tinted view of the world does not mean that there is no value to be had in talking to him. A chief executive can give you a 'feel' for things that you could never pick up by reading an annual report.

Familiarity bias can be overcome by getting information from a number of sources.

Rather than solely relying on the assessment of a chief executive, we actively seek comment from customers, competitors, other senior management and industry experts to get a view on what a company is like and how it is faring.



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We will always be influenced by how we feel about people. I am the first to admit that I have invested in businesses on the strength of their chief executive, and avoided others because I just didn't 'get' the chief executive. That's okay, as long as we know that we have brought this bias to the decision.

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