



MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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❖ Entry prices are irrelevant

To make a spectacular gain from a stock investment, one needs to get both the entry point and exit point right. While we do not have a crystal ball, every one of us enters a share purchase transaction with the hope of making a gain.

However, when the hope does not materialise, and the investment turns sour subsequently, be it due to a misjudgement or a black swan event, more often than not, the decision of whether to continue to hold on to or to exit the investment depends largely on the entry cost. Rationally, the entry price of a stock investment is irrelevant to an exit decision.

It is a lot easier to walk away from an investment if the investment is profitable, even after a substantial portion of the gain has evaporated, than to liquidate an investment at a loss. Most investors are reluctant to 'cut loss' because it is painful to do so as it is tantamount to an admission of a mistake. Also, they are in the illusion that the share price will eventually recover one day if they continue to hold on to the stock and the unrealised loss will therefore be erased.

This is a financial behaviour known as the disposition effect, which relates to a tendency of investors to sell winners but hold on to losers. It arises from a stronger dislike of losing compared to the joy of winning. It may turn out to be selling stocks after a small gain only to watch them gain further, and holding stocks with small losses, only to see them lose further.

For some, the psychological barrier is so strong that they hesitate to cut loss even though they consciously know that it is the right thing to do.

As we all know, the share price of a company is a leading indicator of the fundamentals of its business. The share price generally moves a few months ahead of the company's financial performance as it reflects the market's expectation of a company's financial performance. The perceived or expected performance dictates the movement of the share price.

For example, the acute supply shortage globally and panic buying of medical gloves during the Covid-19 pandemic boosted the earnings of the top four listed glove players, namely Top Glove Corporation Bhd, Hartalega Holdings Berhad, Kossan Rubber Industries Bhd and Supermax Corporation Berhad, to all-time-high for the quarter ended 28 February 2021, 30 June 2021, 30 June 2021 and 31 December 2020 respectively, with their share prices hitting historical highs in early August 2020, a few months ahead of disclosure of their record earnings.

Sensibly, investment decisions such as whether to hold, sell or increase the position in a stock should be based on periodical reviews of the company's outlook, its fundamentals together with its valuation, but not on the historical entry price, which has no bearing on the movement of the share price.

Easier said than done.

High-risk stock speculation is not encouraged but if one emotionally jumps into a stock at an astronomical price, aiming for a quick gain, it is crucial to execute damage limitation when the euphoria subsides.

Some are reluctant to bite the bullet just because the share price is below their entry prices. They stay on until a substantial amount of their investment is wiped out or the share is on the brink of trading suspension/ delisting after which the share price is near worthless.

For example, after the euphoria, the share prices of several glove stocks nosedived by more than 90% from their peaks. Separately, during the super bull run of the Second Board back in the mid-1990s, the share price of a biscuit maker topped RM200 before crashing. Its current share price, of below 60 sen, is a shadow of its former price. Another Second-Board company that made a splash saw its share price surge above RM140, but it was subsequently delisted. It may take forever for these companies with weak fundamentals to see their share price recover to their previous peak.

When the share price goes south arising from earnings disappointment, market fear or adverse news e.g., a qualified opinion in an auditor's report, admission into Practice Note 17, accounting fraud or board tussle, investors should be forward-looking and evaluate the outlook, fundamentals, and valuation of the company. They should assess whether there is a better alternative such as switching to another stock or converting the investment into cash. Entry costs are irrelevant. On some occasions, though unlikely for companies with accounting fraud, the temporary setback may present a golden opportunity to accumulate the stock at a bargain price.

On the other hand, when the share price performs, do not realise the investment merely because the share price has hit a certain percentage of gain from the entry price. Evaluate the prospects of the company together with its present valuation to find out whether the stock could potentially be a multi-bagger stock.

In a nutshell, share prices are forward-looking. Historical entry prices are irrelevant.

Ooi Beng Hooi
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 6 – 10 February 2023

For this week, the following are the AGMs/EGMs of companies in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
07.02.23 (Tue) 10.00 am	Aemulus Holdings Berhad (AGM)	For FY2022, the Group recorded its highest revenue of RM73.0 million (2021: RM61.1 million) and profit after tax (PAT) of RM12.5 million (2021: RM10.4 million) since its inception. The improved performance was due to better sales recorded in China and other key markets on the back of rising demands for Complementary Metal Oxide Semiconductor Image Sensor and the Automotive industries.

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Aemulus Holdings Berhad (AGM)	<p>Based on the strategy of sales in FYE2022, the Group wished to aggressively populate the market in China with its 5G RF solutions through its joint-venture company, Tangming Shengshi Technology (Jiashan) Co., Ltd. ("TMSS"). The strategy aims to get new RF startup companies in China to adopt the Group's solutions at the early stage. This effort was slowed by the side effects of very strict pandemic control in China. (Page 43 of AR2022).</p> <p>With China's border reopening in early January 2023, please briefly update shareholders on the Group's plans for capturing opportunities in the China market for financial year ending 2023?</p>

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DISCLOSURE OF INTERESTS

•With regard to the companies mentioned, MSWG holds a minimum number of shares in all the companies covered in this newsletter.

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