MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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

New Straits Times, Business Times – Thursday - 10 November 2022

SHAREHOLDING

KNOW WHEN TO LET GO

DEVANESAN EVANSON

KENNETH Ray Rogers (Aug 21, 1938-March 20, 2020) was an American singer, songwriter and actor.

His signature song, *The Gambler*, won him a Grammy Award in 1980 and was selected in 2018 for preservation in the National Recording Registry by the Library of Congress.

A memorable phrase from the song is as follows:

"You got to know when to hold 'em, know when to fold 'em, know when to walk away, and know when to run."

The phrase comes from a song about gambling, but there is much relevance for shareholders when they ponder the phrase.

The stock market is not a casino though some treat it as one — nothing wrong with that if we are prepared to face the downside risks of gambling.

In "Berkshire Hathaway Letters to Shareholders", Warren Buffett stated: "Our favourite holding period is forever. We are just the opposite of those who hurry to sell and book profits when companies perform well but who tenaciously hang on to businesses that disappoint. Peter Lynch aptly likens such behaviour to cutting the flowers and watering the weeds."

Minority shareholders should not "tenaciously hang on to businesses that disappoint".

This is a piece of very pragmatic advice from the guru of investing.

Some stocks are worth holding onto because our opinion regarding their intrinsic value justifies us holding onto them. Likewise, we may want out when the intrinsic value premium is no longer there or there are other information or developments that motivate the exit. Typically, this would be negative news.

Sometimes, the negative news is not that serious, and we may want to take some time to exit. Sometimes, the negative news is serious, and there should be absolute urgency to exit the stock.

NO DIVIDENDS

There is a typical complaint among minority shareholders that a public-listed company (PLC) that can pay dividends does not pay dividends — sometimes for over a decade.

The PLC will have a whole host of reasons for not paying dividend.

The common reason is that the PLC wishes to "plough back" the dividend to improve business performance. They say this would result in share price enhancement over the long term, which may or may not happen for various reasons.

Another reason is the build-up of a war chest to seize bargains and opportunities on a cash basis as the pricing will then be to the purchaser's advantage. There is every possibility that the war chest will not be used for years.

Legally, a PLC is not obliged to pay dividends. Regarding the rules (listing requirements), there is also no obligation to pay dividends.

The minute the shareholders elect a board of directors, they have delegated the dividend-declaring powers to the board. It is the directors who owe the fiduciary duty to act in the best interest of the company.

Minority shareholders can ask for dividends. But a PLC is not obliged to give any dividend. For minority shareholders to enjoy the dividend payout, they will have to change the board to a more amenable one who may be motivated or persuaded to declare dividends. Often, this is easier said than done.

Most of the time, minority shareholders do not have the shareholdings to call for an extraordinary general meeting (EGM) to replace the board unless they act collectively.

Amassing minority shareholders to call for an EGM can be an arduous task, what more if the majority shareholder controls more than 50 per cent. Attempts to replace the board will surely be an unfruitful venture.

Considering these challenges, minority shareholders should pragmatically sell their shares and invest in another PLC which meets their requirements.

Bursa Malaysia offers a buffet line of "dishes" (PLCs). There are about 900 PLCs available for investing.

Minority shareholders are not forced to invest in any PLC. To improve the probability of winning in the stock market, besides the right price and right business, it is imperative to invest in companies with the right people who are capable, have integrity and do not hoard excess cash, and know how to strike a balance between conserving cash for business expansion and rewarding shareholders with dividends.

Informed investment decision-making also includes exiting an investment.

Perhaps we should also talk about informed divestment decision-making.

This is when minority shareholders have to be pragmatic — "You got to know when to hold 'em, know when to fold 'em, know when to walk away, and know when to run."

The long-suffering minority shareholders should walk away from recalcitrant PLCs which do not declare dividends when they can.

Institutional shareholders have deeper pockets and thus can withstand the risks of holding on. Minority shareholders, especially retail shareholders, the "moms and pops", generally do not have the risk appetite as they have shallower pockets.

Perhaps a better approach is to study the track record of the PLCs before investing. Not every PLC is a dividend stock. If a dividend or income stock is your preference, look for companies with good track records of paying regular dividends. Some of them have a dividend policy. Make sure they have been adhering to the dividend policy in the past.

Many stocks habitually declare dividends, some of which offer yields above the fixed deposit rates regularly. It is just a matter of unearthing these stocks.

> *The long-suffering minority shareholders should walk away from recalcitrant PLCs (public-listed companies) which do not declare dividends when they can.*

The writer is chief executive officer of Minority Shareholders Watch Group