MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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We must constantly monitor our investments

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ON March 22, the Minority Shareholders Watch Group (MSWG) received a heart-wrenching email from a minority shareholder with 200,000 lots of shares in Sumatec Resources Bhd.

The minority shareholder stated that he was a retiree and that he had invested RM6,888 to purchase the shares.

He wrote that he hoped and prayed that MSWG can do something for the minority shareholders. His concluding remarks were, "Please do something for us."

Unfortunately, MSWG could not do much for him.

We could only tell him that Sumatec has been classified as a Practice Note 17 (PN17) company since April 2018 after its auditors expressed a disclaimer opinion on the company's audited financial statements for financial year 2017.

Subsequently, in August 2018, a winding-up petition was filed by Sumatec's bondholders who demanded for repayment of collateralised loans extended to the company.

The counter had remained suspended since November 2019 after the firm failed to submit its quarterly report to Bursa Malaysia Securities Bhd.

MSWG concluded by stating that with the above development, there is really nothing much the company, board, shareholders or MSWG could do now.

We have often heard that fundamental investing is all about buying good counters and just locking them up for the long term.

Holding for the long term does not mean not monitoring them. We must constantly monitor our investments. We live in a world in which stocks deemed as good fundamental counters could turn sour overnight. What more with companies that are of dubious fundamental value.

Selecting a counter is well and good but it must be followed by constant monitoring — diligence must be followed by vigilance.

In the case of Sumatec, there were several early warning signs that should have prompted a risk-averse investor to exit from the counter.

It was classified as a PN17 company in April 2018 — the first formal sign of financial distress.

Shareholders who are risk-averse should have exited the counter at that point of time.

Some shareholders would have hung on because the counter was trading at well below their cost. They probably hoped that the counter would recover.

Hope is not a valid premise to stay invested. There must be a strong fundamental basis if they wish to remain invested in a PN17 company.

Investors should learn to cut losses when doom is impending. In fact, high-entry cost should not be a deterrent to exit a stock when things have turned sour.

Stock market and share prices are always forward looking. Whether to sell or hold on to a stock should primarily be determined by the outlook and the current valuation of a company.

Rationally, entry cost is utterly irrelevant.

Between the date of Sumatec's classification as a PN17 company (April 30, 2018) and the company's announcement of a suspension on Bursa (Oct 31, 2019), about 18 months had lapsed — 18 months of opportunities for risk-averse shareholders to exit the counter. On Dec 27, 2021, Sumatec confirmed that it had no legal challenge or proceedings filed against the winding-up order granted by High Court.

If we take high risks and base everything on unfounded hope, we must be prepared for the consequences.

Any investment will offer opportunities to either realise our profits or cut our losses. But it is fear and greed that stop us from making the right decision.

Many a book on behavioural science of investing has outlined the consequences of succumbing to our emotions. They say, have a target to exit and exit when the target is reached.

Sun Tzu said, "Know thyself, know thy enemy. A thousand battles, a thousand victories". And the worst enemy in investing is our emotion.

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