What are the Key Mistakes You Made and Lessons You Learned that You Would Like to Share With Your Peers in the Industry and Investors?

Over the 45 years of fine-tuning value investing, there have been many interesting mistakes we have made in investing. One would have to be truly exceptional to have made no mistakes in investing. There are just too many pitfalls ranging from faulty assessment of a company's fundamentals to over-reliance on a company's guidance. Though company visits afford the essential opportunity to meet and discuss with the top management team and facilitate your decision-making process, it is by no means a clear path to successful investing.

In 2007, we invested in a Chinese company listed on Singapore Exchange ("SGX"). We visited the factories and met with the CEO. We thought the products had good market potential and had enormous demand. The company apparently met our basic investment criteria and its gearing level was considered acceptable. The business was expected to grow and we believed the stock was undervalued. After some due diligence, we invested in the company in late 2007. We did not participate in the IPO as we wanted to know more about the company and the market's response to a China-based company listed on a non-home-based stock exchange. We bought additional shares in 2008 when the share price corrected sharply. There was no sign that the company was not doing well.

Suddenly, in early 2009, the board of directors announced that they were having difficulties in finalising the audit of the group's trade receivables and cash balances for the financial year ended December 2008. An external investigator appointed in February 2009 to carry out an independent assessment found numerous financial and accounting irregularities and an unauthorised change in the group's corporate structure. The company violated SGX's listing rules by failing to disclose Chinese bank loans in its balance sheets. Trading in the share was suspended in February 2009. Though the exposure was very small, it was a salutary lesson for us.

We need to pay more attention to the details in the accounts and check with their competitors on the characters of the top management and the standard of corporate governance. The gearing position which was acceptable to us at that time was then found to have been understated. Fortunately for us, consistent with our investment policy, we had not practised concentrated bets. Thus, though humbling, the losses had not been damaging to the portfolios concerned. We believe that remembering mistakes is a good way to prepare for the next crisis.

Never Fully Invest at All Times

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