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BAOBAB
INVESTMENT MANAGEMENT
AFRICAN ROOTS | GLOBAL PERSPECTIVE

The Friday Filter

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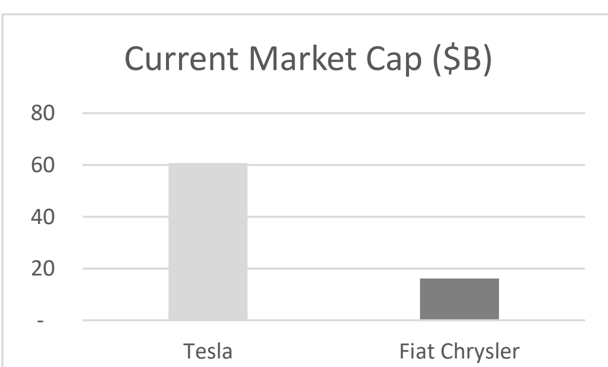
FOMO

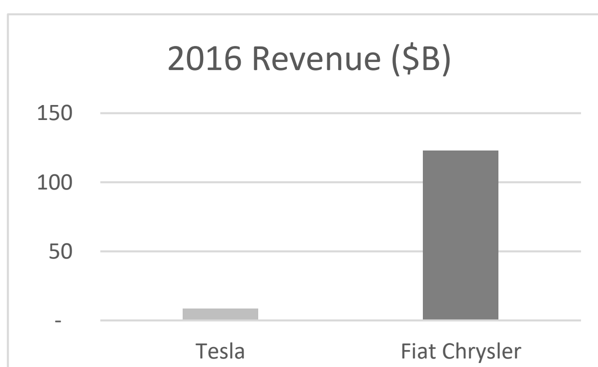
FOMO (fear of missing out) is something we have all experienced in some form in a social context. Wikipedia describes it as "… a pervasive apprehension that others might be having rewarding experiences from which one is absent. This social angst is characterized by a desire to stay continually connected with what others are doing."

Knowing that your friends are all having fun on a weekend away or at a party when you are stuck at home studying for a compliance exam is tough to deal with and can result in a certain level of anxiety. While some people are more prone to FOMO than others, in a social context the anxiety caused by missing out is usually short-lived and harmless.

In investing, however, FOMO is far more dangerous. The fear of missing out on financial gains causes investors to deviate from their plans or strategy in pursuit of what other people are experiencing, and the end result is often not a good one. Whether it is flipping houses or investing in popular stocks, the emotional driver is the same and fundamental value is never a consideration. It is reasonably clear where FOMO sufferers are currently focusing their attention when it comes to investing. There is only one share to own domestically and talk about around the braai, but globally the FOMO portfolios are a little more balanced. Amazon is the core holding, but there are also positions in Facebook, Apple, Netflix, Google, and a stake in Tesla for diversification. Amazon is probably the poster child given the way it is disrupting so many established businesses, but for me Tesla is the best example of the current valuation anomalies that exist in global markets today.

Shown below are a few comparisons between Tesla and Fiat Chrysler Automobiles, a share we happen to own for clients. (Source: Yahoo Finance/Company Filings)

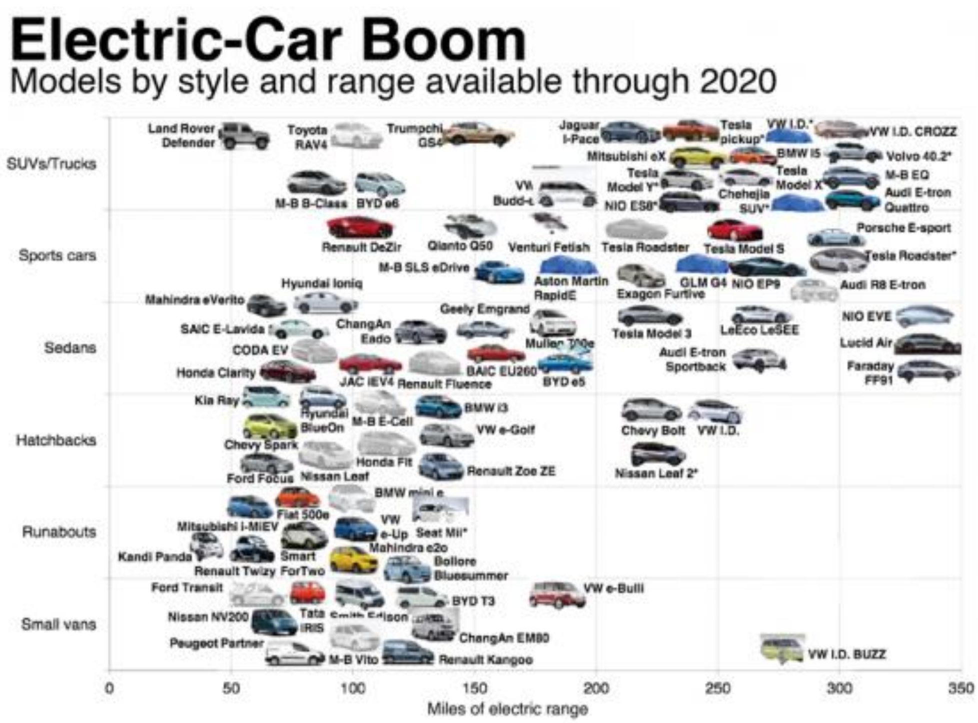




Breaking it down further, Tesla sold 76,230 cars in 2016 and made a loss of nearly $700 million, whilst Fiat Chrysler sold nearly 5 million vehicles (Jeep, Chrysler, Maserati, Alfa Romeo are all Fiat owned) and made a profit of over $ 2 billion. This year Fiat will sell about 3 times as many luxury vehicles alone (Maserati, Alfa Romeo) as Tesla, yet the entire group trades at a significantly lower value than Tesla.

While we acknowledge the risks associated with Fiat in terms of its cyclicality and emission issues, it is priced for a severe recession whereas Tesla is priced to dominate a market that is in its infancy. Tesla may well end up being a great investment, but we do not have any FOMO not owning it. Paying up for high expectations is not in our investment DNA, thus we are happy to let others enjoy the ride without us.

We do, however, recognize that the industry is undergoing radical change and that electric vehicles are likely to be a big part of the future. Tesla is not the only company that is investing for this eventuality and competition is likely to be intense. Shown below is a chart of electric vehicles expected to hit the market between now and 2020. (Source: https://www.moneyweb.co.za/news/tech/electric-car-boom-so-real-even-oil-companies-say-its-coming/)



While we are happy to pass on Tesla, we are busy looking at one or two potential investments where we will get a free option on the potential growth in the electric vehicle industry down the line. One of them is a very profitable chemical company that just happens to be a market leader in the supply of batteries to the electric vehicle market, with twenty of Tesla's competitors already secured as customers. It may not be as much fun to talk about around the braai, but it is a far less risky way of investing in a market with a potentially strong growth runway.

In summary, we have missed out on many high profile winners of late, and will continue to do so when they do not meet our criteria for investment and where expectations are high. Being "absent from these rewarding experiences" can hurt in the short-term, but maintaining discipline and staying "FOMO free" is critical to achieving our long-term objectives.