Sale of Apple – "be fearful when others are greedy……"

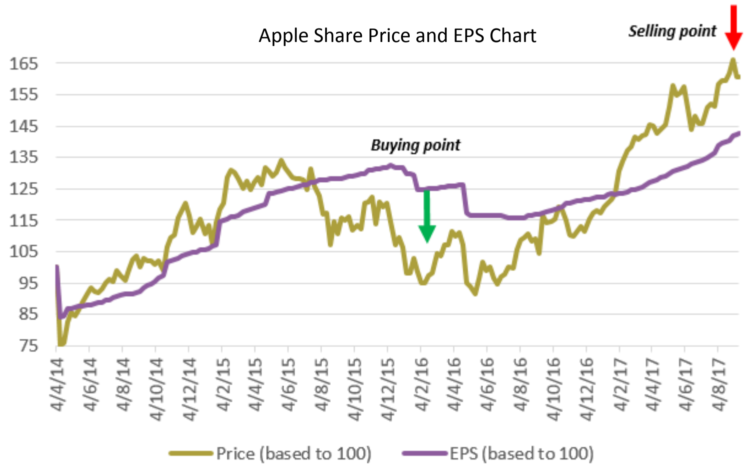
We wrote a blog in May entitled "The death of active management is greatly exaggerated" where we specifically looked at how the share price of Apple, the biggest and most heavily scurinised company in the world could have been mispriced by the market to such an extent.

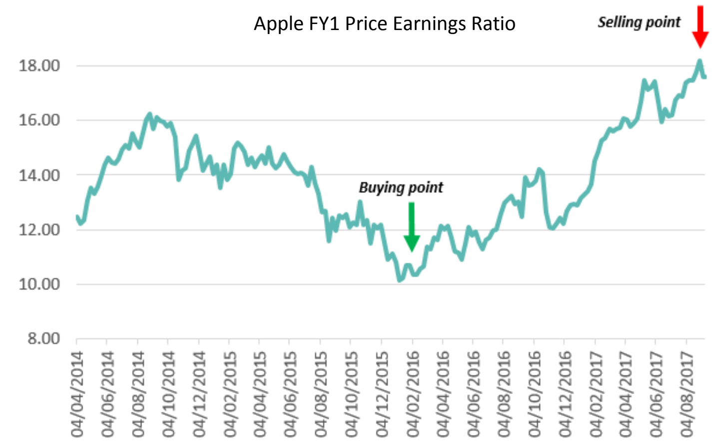
Since then, Apple shares have continued to perform incredibly strongly predominantly in anticipation of the imminent launch of the new iPhone 8 and also the potential for US Tax reform (which will lower Apple's tax rate and enable it to repatriate its $150bn net cash pile which is currently held off-shore).

The share price has appreciated to such an extent that the valuation is now too stretched and the yield is too low for us to hold in the fund. Therefore, the shares have been sold.

We started buying Apple shares at $95 in February 2016, when the market thought the global economy was heading into recession and that Apple's iPhone unit sales had peaked. At that time, the shares were trading on less than 10X 2016 Price Earnings ratio and yielded 2.4%. In hindsight, this of course was a ludicrous valuation for a company with such a prestigious brand and product offering. However, at that moment it felt a very uncomfortable purchase given the negative market backdrop.

Both the market environment and sentiment couldn't be more different today. Global stockmarkets and the Apple share price are at all time highs. We sold our Apple shares earlier this month at $162 with the shares having re-rated to 18X 2017 Price Earnings Ratio and only yielding 1.5%. Whilst we are pleased that we have made an excellent return for our investors in such a short-period of time – there are a couple of points to draw out. Firstly, Apple shares increased by over 70% during our holding period which means that the market capitalisation increased from $522bn at the time of purchase to $891bn at the time of sale – a staggering $369bn increase. Secondly, this share price rise has happened in only 19 months, an incredibly short-period of time and significantly less than our normal long-term holding period.





Whilst we do expect the launch of the new iPhone 8 to be a success, we would suggest that investor expectations and the valuation have priced much of the good news into the share price.

The core tenet of SGIG is to buy global leading businesses, with strong Balance Sheets and supportive dividend yields, at attractive valuations. With valuation being the most important part. Apple, therefore, no longer meets our strict criteria.

We think it is apt to leave the last words to one of Apple's largest shareholders - "be fearful when others are greedy and greedy when others are fearful".

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