PROFILE

Shane Watkins
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How did you get involved in financial services – was it something you always wanted to do?
I did Business Science at UCT, worked for an Anglo-American subsidiary for a year, then went back to UCT to do a CA. Articles with Deloitte and then was fortunate to get a job at Libam as a retail analyst. Back in the 1990s, Libam was one of SA's premier fund management outfits, and many of the very successful boutique fund managers of today were ex-Libam, such as David Fraser, Clive Nates, Roger Williams, Errol Shear and Patrice Moyal. It was a great team, we learned a lot from each other, and we are all still friends today.

I always wanted to be in fund management, and I think the differentiating factor between success and failure in the industry is the extent of your passion for financial markets. If you do not follow how the US market trades when you get home or check the Asian markets first thing when you wake up, then fund management is probably not for you.

I was also lucky to join Peregrine Capital shortly after Clive Nates and David Fraser founded it. Clive, Dave, Nick van Rensburg and I worked together for quite a long period at Peregrine Capital, and we developed a good methodology for equity research and fund management. In fact, Nick and I work together again as he is our investment strategist, and he is brilliant. Partly because he is very smart but mainly because he is so passionate about financial markets. He eats, sleeps, and breathes financial markets, and so do I.

What was your first meaningful successful investment?
I was the retail analyst at Libam when Sean Summers was first appointed CEO of Pick n Pay. At that time, Pick n Pay was recovering from a debilitating strike and the business was in very bad shape, especially from a staff morale perspective. I met Sean, who at that time was an unknown figure, and got to know him. He developed a strategy that was easy to understand, and he executed it very well. We took a big position at Libam – I think we owned nearly 20% of the company at one point – and we did really well out of that recovery story.

The other story that I remember was my first short trade. There was a company called Officemart. I had heard rumours that they were not trading well, and I decided to go and see a few stores firsthand. I was at the Sandton store and the staff were complaining that salaries had not been paid, so I came back to the office and shorted some shares personally. Shorting was not prevalent back then, and the stockbroker did not even know how to book the trade or how to borrow the shares. Anyway, Officemart went bankrupt, and I had executed my first successful short sale.

"Use a crisis to buy the shares in the best companies with the best management"

What have been your best and worst financial decisions?
In fund management you need to have a 'growth mindset'. You need to be learning always. And you learn little from success and more from failure, so I'll rather tell you about my mistakes. Even now I am still learning. In the recent market drawdown in early April, we bought some medium quality shares that were beaten up, but we did not buy the top-quality shares that were not down much. As things ended up, the best shares to be in were the best quality stocks such as Capitec, OUTsurance, Clicks, or PSG. There is such a strong tendency to buy shares that look cheap, but the best strategy I've learnt is just buy the best quality, especially the best quality management. Poor management will always find a way to disappoint you. Unfortunately, they are very inventive in that way!

What are the biggest lessons you have learnt as a fund manager?
One of the lessons is that in a crisis we never ever know, at that point, how the issue at hand will be resolved. I have lived through the '87 crash, the Asian crisis of '98, the dot.com bubble, the GFC, Nenegate, Brexit, Covid, and more recently the Trump tariffs. In every instance, no one could see how the situation would get resolved. So most big players tend to be on the sidelines doing nothing. But somehow, every time, the situation was eventually remedied. So do not let the fact that you cannot see how the crisis will be resolved stop you from acting. Be proactive and have a predisposition to use a crisis to buy the shares in the best companies with the best management. And try to avoid buying poor quality companies because they appear cheap. And recognise that you will sometimes be wrong. Adjust your positions quickly. Just try to be wrong for as little time as possible.

What makes a good investment in the current environment?
I think that the SA market has changed over the three decades of my career. There are less true entrepreneurs and less good growth opportunities. If you combine that with the fact that pension funds can now take 45% of their assets offshore, you really have to be selective about what SA company you buy. Very few SA listed companies have a 'unique selling proposition'. Try to imagine what company a foreign investor coming to SA would want to own, and buy those companies.

What advice would you give young people that want to enter fund management?
Read books on the industry. There are now so many good fund management books available. Watch Bloomberg TV when you go home. Read the *FT* and the *Wall Street Journal*. Travel. But I guess the thing you need is passion for financial markets and then you will do all this naturally. It's not an effort. Make sure your job in financial markets is really your hobby, then it doesn't feel like hard work. And trade PA (for your own account) – that teaches you that you can only eat what you kill. Trading hones your skills and teaches you how to recognise patterns from past events to assist you to respond better in the future.