

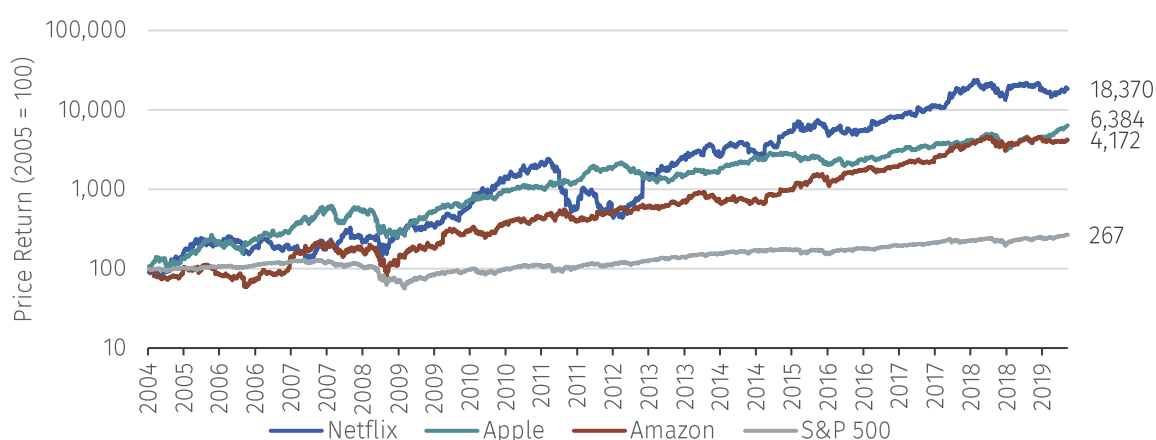
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Long-term investing – company case studies

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A common regret we often hear is: “Why didn’t I buy Amazon/Netflix/Apple stocks 15 years ago?”. A \$100 investment in these stocks back in 2005, would turn into \$18,683 (Netflix), \$6,384 (Apple) or \$4,048 (Amazon) 15 years later. The same \$100 invested in the S&P 500 index would have returned \$267.

Figure 1. 15 year growth of a \$100 investment



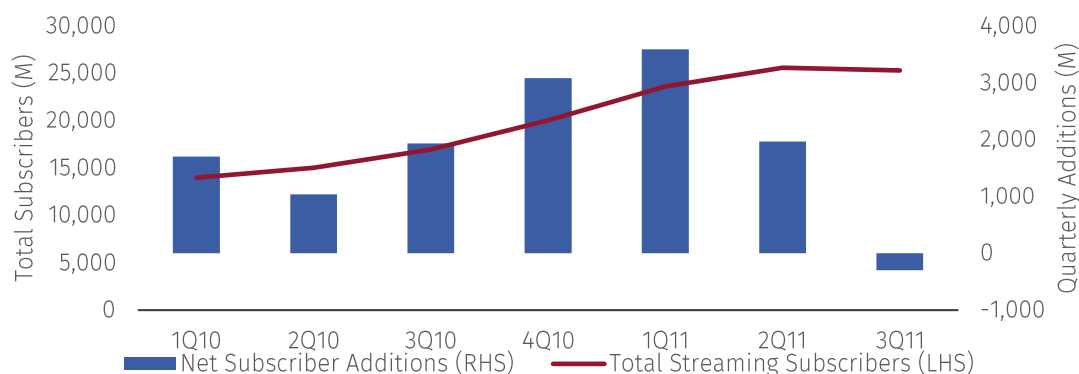
Past performance is not necessarily a guide to the future. Source: FactSet.

Even if you did buy these stocks in 2005, would you have held onto them? These are dominant market players today but their growth trajectory has not always been smooth.

Case Study 1: Netflix in 2012

Netflix started as a DVD rental company and launched video streaming in 2007. By 2011, its streaming subscribers exceeded 20 million. In September 2011, Reed Hastings split the streaming business from DVD rental and raised prices. Customers were outraged. Meanwhile, competition was rising from the likes of Hulu and Amazon. Unprofitable international expansion was disliked by the market. Subscriber growth, the most important metric, stalled. Had Netflix run out of growth?

Figure 2. Netflix's subscriber growth slowed down drastically in 2011



Source: FactSet.

Its share price plunged by almost 80% between July and December 2011 and stagnated for the whole of 2012.

Figure 3. Netflix's share price plunged 80% in late 2011

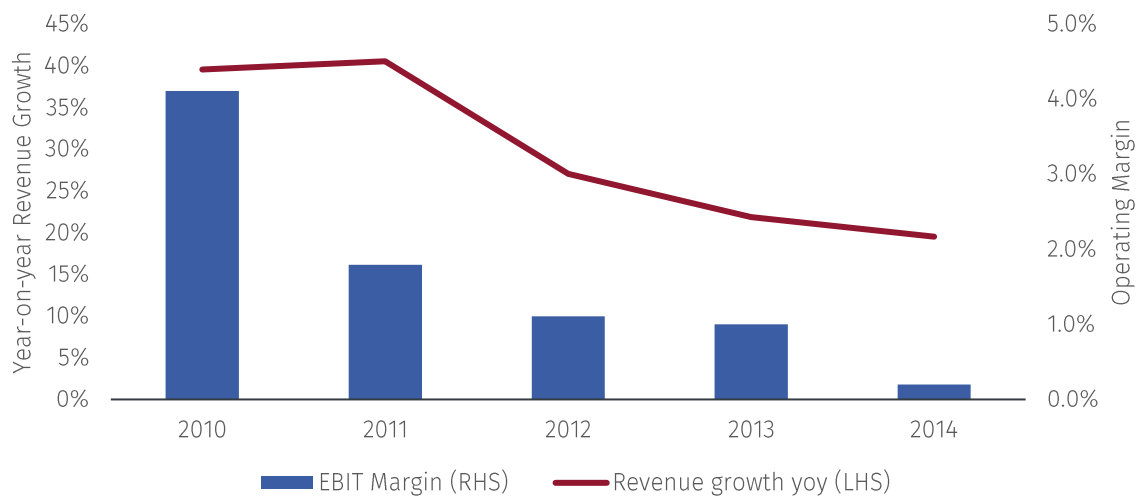


Past performance is not necessarily a guide to the future. Source: FactSet.

Case Study 2: Amazon in 2014

In 2014 Amazon's revenue growth was decelerating, while spending heavily on cloud computing, logistics and media. Margins were also declining, leading to questions around the long-term viability of cloud computing, Prime and e-commerce. 2014 financials were disappointing: revenue growth slowed from 40% in 2011 to 19% in 2014, while operating margin dropped from 4% in 2010 to 0.2% in 2014. Investors would have wondered whether Amazon was ever going to be profitable.

Figure 4. Amazon revenue growth slowed and profit margin evaporated in 2014



Source: FactSet.

As a result, its share price dropped -22% in 2014, compared to a +12% rise for the S&P 500.

Figure 5. Amazon share price dropped over 20% in 2014



Past performance is not necessarily a guide to the future. Source: FactSet.

Case Study 3: Apple in 2015

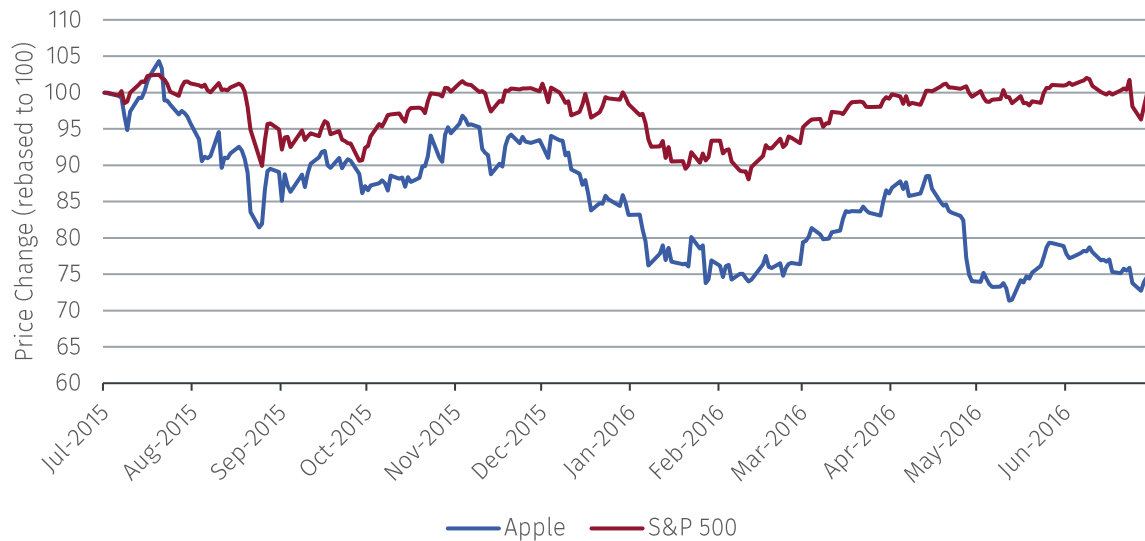
Assume you held onto Apple shares through the 2008 financial crisis and the passing of Steve Jobs. In 2015, Apple was facing problems. The smartphone market began to saturate, replacement cycles lengthened, and competition was rising. Tim Cook was often viewed as lacking innovation. In 2016, iPhone unit sales started to decline, and no new flagship product was in sight. Where was the growth going to come from? Apple's share price declined -25% between July 2015 and June 2016.

Figure 6. iPhone unit sale declined in 2016, as the market matured



Source: FactSet.

Figure 7. Apple share price dropped 25% in 2014-2015



Past performance is not necessarily a guide to the future. Source: FactSet.

Would you have held onto your Apple stocks having underperformed the S&p 500? One person who went against consensus was Warren Buffett, who began buying Apple shares in 2016.

In conclusion, even for the most successful equity stories, periods of underperformance are inevitable. These periods could last for over a year. That's why long-term investing is easy in theory but difficult in practice.

Share prices in the 15 years between 2005-2019:

	Netflix	Apple	Amazon
Total return	18270%	6284%	4072%
Annualised return	42%	32%	28%
Maximum drawdown*	-82.0%	-60.9%	-65.3%
Days taken to recover to a prior peak	542	497	504
Number of over -10% daily price drops	17	3	12

*The peak-to-trough decline, before a new peak is reached.

Past performance is not necessarily a guide to the future. Source: FactSet

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