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thoughtful investing for private clients

Quantifiable Value of Patience

"The stock market is a device to transfer money from the impatient to the patient." —
Warren Buffett

Having patience as a fund manager can have an enormous impact on the performance of your fund. The first and most key step is to identify and invest in quality companies. This is a rigorous process that requires meticulous research to identify companies that display strong fundamentals. Once these have been identified, it is important to buy the company's stock at the right price. Overpaying for a company can have negative long-term consequences in the fund and a share price might take years to reach the entry price again. The power of patience cannot be underestimated in this process.

Patience in Investing involves maintaining a long-term perspective and it is critical to avoid impulsive or emotional decisions based on short-term market fluctuations. Or in simpler terms, when share prices shoot up or down due to markets overreacting to good or bad news, it takes patience not to follow the herd but to remain steadfast in your investment strategy.

If the long-term fundamentals of the company are still sound, there is no reason to sell, despite many others doing so. This overreaction by the market creates buying opportunities when the share price of a company drops significantly and reaches its intrinsic value once more.

AmerisourceBergen (ABC) is one of the world's largest pharmaceutical services companies which focuses on providing drug distribution and related services to reduce healthcare costs and improve supply to patients. ABC is one of three companies that effectively operate as an oligopoly. The three leading distributors are AmerisourceBergen, McKesson, and Cardinal Health and together they represent 90%

of the US market. They do not manufacture any products and focus solely on the distribution of pharmaceutical products.

One example of their ingenious methods when it comes to their supply chain is using Radio-Frequency Identification (RFID) technology in their inventory and billing management. Refrigeration units are installed at hospitals to make manufacturers' drugs more accessible to the hospital. The RFID technology picks up when a drug is removed from the unit and if it is not placed back in a couple of hours it updates the inventory system and only then bills the hospital for the drug used. When a certain drug's inventory becomes low an alert is sent to ABC so that they can stock up on the drug and the hospital never has to worry about inventory levels.

All great companies have risks and AmerisourceBergen is no different. In 2015, a wave of lawsuits emerged against them due to their apparent role in the opioid epidemic of the decade before. This had a significant impact on the share price which dropped by almost 40% over the next year. recently, they have settled the lawsuits and will be paying \$6 billion over the next 18 years. This will not impact their yearly cashflow indicating that the markets overreacted and therefore created a buying opportunity.

The quantifiable value of patience can be seen below in the graphs. If you bought \$10 000 worth of shares of AmerisourceBergen on 1 January 2016 at a PE ratio of 20.23x, it would be worth \$19 742.07 today (including dividends). This equates to an annual rate of return of 9.50%.

A patient investor would have to wait a year before the share price reached its intrinsic value again when the PE ratio was close to fifteen times. Purchasing \$10 000 worth of AmerisourceBergen shares on 6 January 2017 means you were able to buy almost 21 more shares for the same value. That \$10 000 would now be worth \$23 981.13 (including dividends). This equates to an annual rate of return of 14.46%.

By waiting patiently for the share price to drop to or below its intrinsic value has resulted in the investment being worth \$4 239.06 more. It took one year for this to happen, and the quantifiable value of patience can be seen in the result. \$4 239.06 does not seem that much but on a \$10 million investment it becomes much more. This

is one example of what separates good fund management from great fund management.

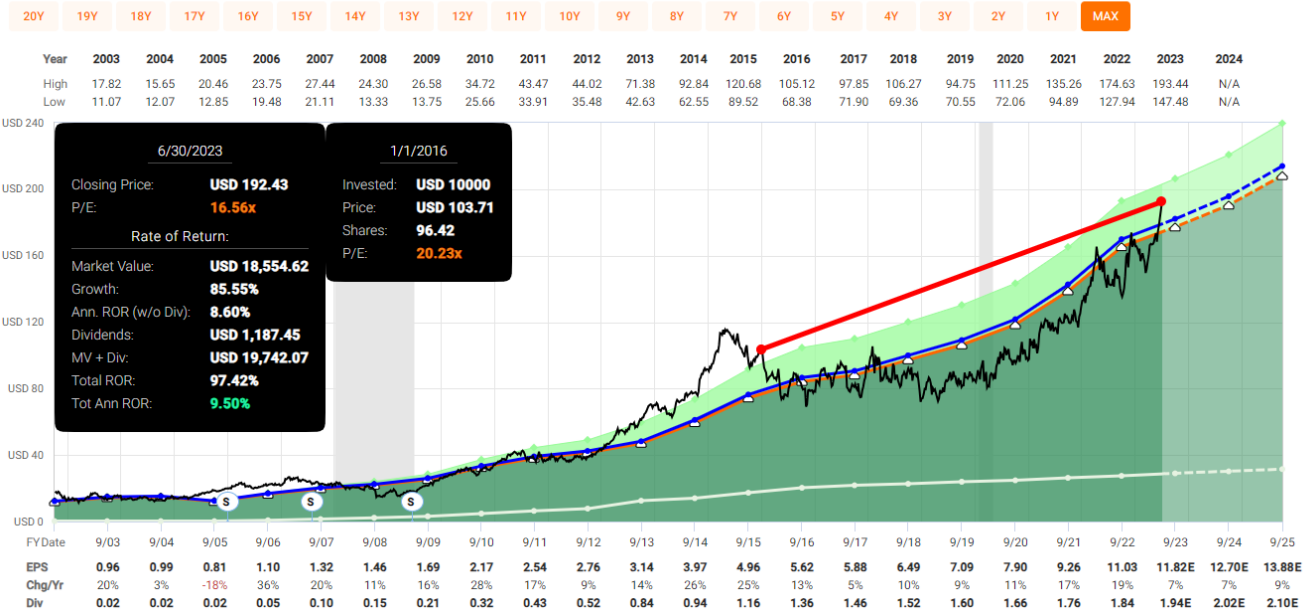
AMERISOURCEBERGEN CORP (ABC:US)

USD 192.43 +1.91 (+1.00%)

At close: 30 Jun 2023

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Price Correlated With Adjusted (Operating) Earnings



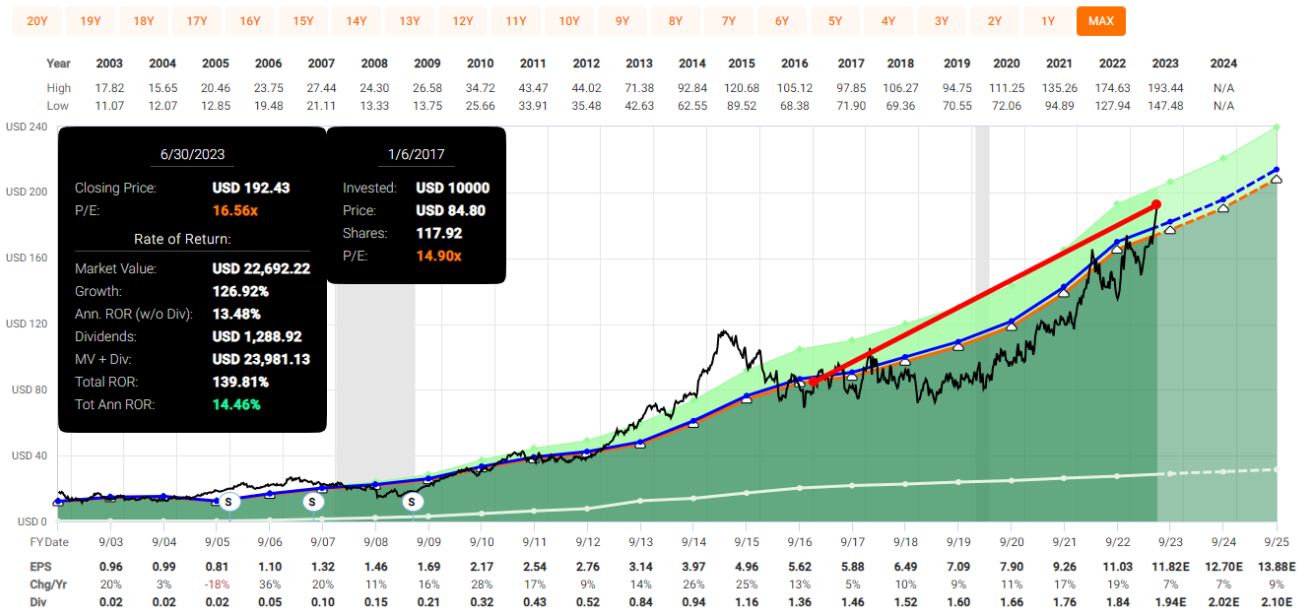
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Source: Fast Graphs 30.06.2023

- Ends -