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Beware of first-person shooters and superstars

Hans Peter Schupp, managing partner of FIDECUM AG and portfolio manager of the Contrarian Value Euroland fund, talks about the lack of sustainability of corporation managers

In many companies, management is under fire. We are currently living through a difficult phase with economic crisis, soaring inflation and rising prices on all fronts. So it's almost normal that board members are being replaced. The aspiration: A new broom sweeps clean! Or people simply no longer understand many of the decisions made by corporate leaders.

Musk and Zuckerberg are daunting examples

Take Elon Musk and Mark Zuckerberg, for example, who are destroying their own money as well as that of their investors through new ideas and takeovers. Tesla shareholders, for example, had to accept a halving of the share price, not because Tesla is selling fewer cars, but because Elon Musk overpriced Twitter. Does he still care about Tesla now? And will Zuckerberg's dreams of a Metaverse become reality? Or will his billion-dollar investments simply vanish into thin air at some point? Both egomaniacs have also lost more than $80 billion each themselves since the beginning of the year. That doesn't hurt the multi-billionaires much, unlike their investors.

The new guy will fix it

The list of CEO changes that triggered real price rises also makes very impressive reading. When it Adidas decided to hire Puma boss Björn Gulden as the new CEO, the price of Adidas shares jumped by around 30 percent. On the other hand, when his predecessor Kasper Rorsted moved from Henkel to Adidas, he was also seen as a great savior. The share price gained a good 12 percent - but could not maintain this level for long. But such changes often lead to a reassessment of the company. The new guy will fix it.

What is behind all these share price rockets and pipe failures? On the one hand, the stock market always associates a change of leadership with a lot of hope and reacts with extreme price premiums. On the other hand, companies are punished whose CEOs are also major shareholders and think they can do whatever they want. These are then ego trips at the expense of the co-owners!

Management is subject to changing fashions. A change of CEO is usually associated with a change of strategy. Then the portfolio is cleaned up after the numbers are hitting the low end. Because the "mistakes" can still be blamed on the old management. Often, value adjustments are even exaggerated - there are still a few reserves in there. When things have finally been tidied up, the process of increasing returns begins. Because once you have reduced the equity, you can concentrate on the return on equity, which is also easier on the basis of the reduced equity.

The simplest formula for success for new CEOs: lower equity first, then increase the leverage

The easiest way to increase the return on investment is to first lower the equity capital considerably. Then the newcomer implements his/her strategy - until he/she fails. First, it's called: We have to expand! Or: We have to diversify! Or: We have to concentrate on our core business! If this works, the newcomer is allowed to continue for a while. If the strategy fails, the new person is replaced again! This is probably what will happen now with the Walt Disney Company. The Mickey Mouse corporation has brought former CEO Bob Iger out of retirement. Especially the streaming business is in crisis. Iger's successor and now predecessor Bob Chapek had simply not met expectations. And now? The old/new boss will fix it, that's the motto. The share price reacted with a jump of over 10 percent at times. But experience shows: The initial flash in the pan doesn't last long.

And how does the stock market typically react? When management changes, the stock market reacts positively. This is usually followed initially by weak results and finally by a slump in the share price. But the new strategy is quickly implemented. If there are successes, the share price rises again. But then the company sticks to its strategy for too long, even though the environment has changed. The share price collapses again and the manager falls out of favor. A change of manager follows - and the whole thing starts all over again.

Beware of star managers and first-person shooters!

What consequences can be drawn from this? Beware of star managers! They often stay at the helm too long - and stick to the old methods for too long. But the world changes, and often enough they don't react quickly enough to these changes. And they are out of a job again. This is how star managers quickly become losers. There are many examples from the past: Carlos Ghosn at Renault, or the manager icon Lee Iacocca, "Neutronen Jack" Jack Welch and, from a German perspective, the model manager Edzard Reuter, who failed with his highly praised vision of a global technology group at Daimler. The list could be continued indefinitely.

We are always cautious about such first-person shooters, since a single person always determines the weal and woe of an entire group. That is why we are often positioned in companies where the management still has upside potential and the company is not commanded by autocrats. That's exactly where we feel comfortable. Where is best room for improvement? Exactly, where not everything is running optimally yet. In addition, it has to be stated that management itself is not necessarily sustainable. Sometimes this is because company leaders are in the wrong place at the wrong time. In other words, good and bad is always a question of timing. What was previously considered extremely promising can suddenly be considered a bad strategy. Here, as an investor, you should always look twice and not to entrust in the "wrong" CEO.

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