

THE QUALITY PULSE

ONE INSIGHT. ONE PERSPECTIVE. EVERY WEEK.

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5 MIN READ

Would You Still Buy It Today?

The endowment effect, portfolio discipline and why existing holdings need to compete with new ideas

Every portfolio review eventually returns to the same question: if the money were in cash today, would this share still be an attractive investment? It sounds simple, but the answer requires looking beyond the original investment decision. Businesses evolve, valuations change and new opportunities

emerge. An existing holding comes with a history; a new idea offers a fresh perspective. Portfolio discipline means assessing both on equal terms, with the focus on what each investment can deliver from today onwards.

WOULD AN EXISTING HOLDING SURVIVE THE SAME PROCESS A NEW CANDIDATE MUST PASS?

WHY OWNERSHIP CHANGES THE TEST

The endowment effect is the tendency to place more value on something once it is owned. In classic experiments, people randomly given a mug asked more to give it up than others were willing to pay to obtain one. The mug did not improve when it changed hands; the reference point did. A share can work the same way: selling feels like surrendering something, while buying the same share feels like a fresh commitment. [1]

Investors may also feel a loss more sharply than a missed gain. In a study of 10,000 brokerage accounts, Terrance Odean found investors more likely to realise gains than losses; rebalancing and lower share prices did not explain the pattern. [2] This “disposition effect” helps explain why a familiar holding can receive more benefit of the doubt than a new idea. It describes a tendency, not a rule to sell a laggard: the business and its prospective return still decide.

The problem extends to professional investors. A 2023 study in the Journal of Finance examined institutional portfolios averaging \$573 million. The researchers found evidence of skill in stock purchases, but substantially weaker selling decisions, even relative to random-selling benchmarks. Their findings suggest that unequal attention may help explain the difference: identifying a new opportunity can attract more analysis than reconsidering a familiar position. [3]

That creates a practical question. Would an existing holding survive the same investment process that a new candidate must pass?



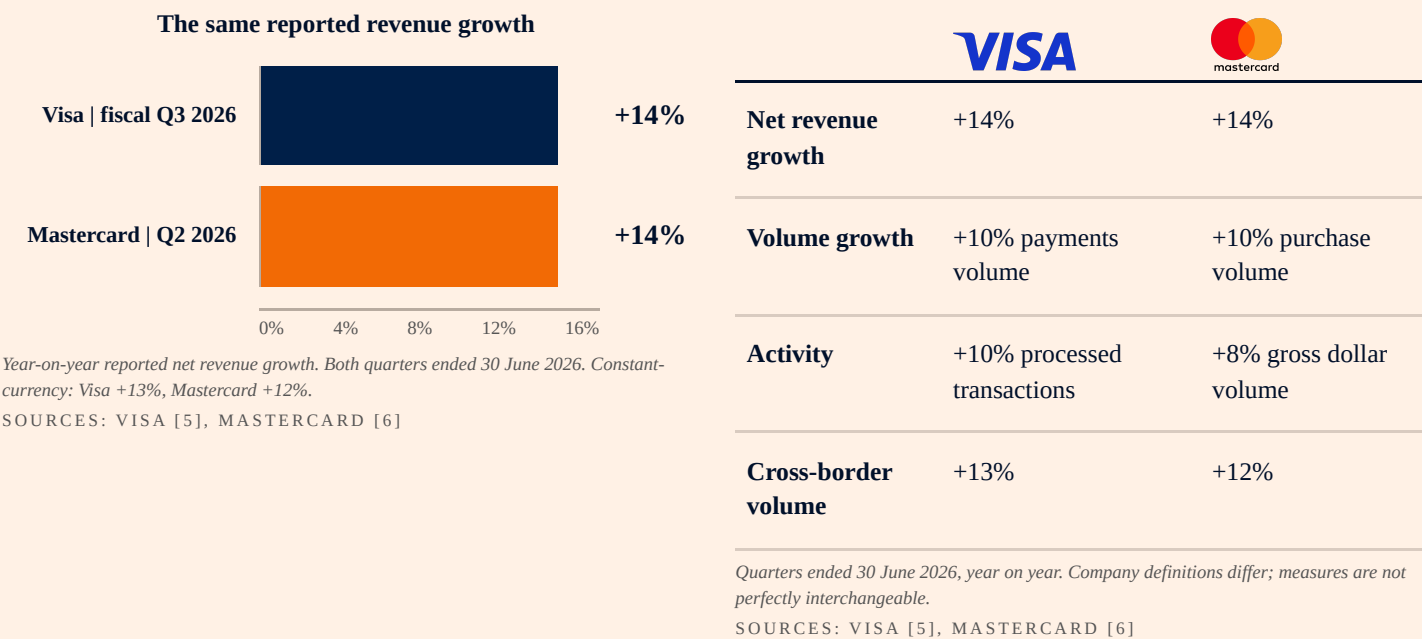
INVESTMENT PERSPECTIVE

Ownership can influence how investors assess an opportunity. Applying the same analytical standards to existing holdings and new ideas helps maintain a consistent, forward-looking investment approach.

Same revenue growth. Not the same investment.

A FAIR CONTEST: VISA AND MASTERCARD

Imagine owning Visa and having to choose between adding to it or directing fresh money to Mastercard. Both are S&P 500 companies built around global payment networks. In a typical card purchase, the network routes and authorises information between the cardholder’s bank, the merchant’s bank and the merchant. Visa and Mastercard generally do not lend to cardholders; that credit risk belongs to issuing banks. The networks earn fees from payments and related services. Their appeal to quality investors lies partly in the network effect: cardholders value broad acceptance, while merchants value access to many cardholders. That scale supports both sides, though spending, travel, competition and regulation still shape growth.



The operating details add texture. Visa reported payment-volume growth of 10%, processed transactions up 10% and total cross-border volume up 13%. Mastercard reported purchase volume up 10%, gross dollar volume up 8% and cross-border volume up 12%. These measures are not perfectly interchangeable; a fair comparison still needs to look beyond the matching revenue headline. [5, 6]

ONE NUMBER CANNOT PICK THE WINNER

The companies compete directly, but they are not interchangeable. Revenue mix, client incentives, value-added services, regional exposure, legal risks, investment needs and valuation can differ. A headline growth rate cannot reveal what future growth the share price already assumes, or whether another payment-network position improves a particular portfolio. Neither company is an obvious straw man. That is what makes the pair useful: it creates a credible choice and leaves the answer to current evidence.

The decision also depends on the price. An outstanding business bought at demanding expectations can offer a lower prospective return than a similarly strong business available at a more reasonable valuation. Equally, selling a long-held winner simply because it has appreciated may sacrifice years of profitable compounding. The more accurate comparison is forward-looking, not anchored to the original purchase price.

What matters is not how a holding has performed since purchase – but what it can contribute from today onwards.

REVIEW THE DECISION, NOT THE PURCHASE PRICE

Recent experimental research offers an interesting perspective. Cheung and Rogut (2024) asked participants to consider which of their investments was most likely to weigh on future portfolio performance. This simple change in perspective modestly reduced the tendency to hold on to losing investments, particularly among participants who correctly identified the weakest asset. [4]

The lesson is not that investors should trade more frequently. Rather, it highlights the value of looking forward instead of dwelling on past gains or losses. What matters is not how an investment has performed since it was purchased, but what it can contribute to the portfolio from today onwards.

THE OWNER’S TEST

For a long-term quality investor, this calls for a disciplined review. Has the competitive advantage strengthened or weakened? Are returns on additional invested capital still attractive? What expectations are reflected in the current valuation? Does the position remain an appropriate allocation of capital compared with available alternatives, taking into account taxes, transaction costs and portfolio risk?

1

Competitive advantage
Has the competitive advantage strengthened or weakened?

2

Returns on capital
Are returns on additional invested capital still attractive?

3

Valuation
What expectations are reflected in the current valuation?

4

Allocation of capital
Still appropriate versus the alternatives – after taxes, costs and portfolio risk?

These questions do not necessarily call for a transaction. They call for a thoughtful and objective assessment.



THE PULSE

A good investment decision does not remain good merely because it was good when first made.

Quality businesses deserve patience, but not immunity from reassessment. The strongest portfolio discipline combines the willingness to hold through temporary noise with the willingness to reconsider when facts, valuation or alternatives change.

The aim is not to trade more. It is to ensure that every holding continues to earn its place.

SOURCES

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