MARKETS

Shares offer value in long run

Buying shares in good quality companies for the long term is the soundest form of investment, writes Anton Tagliaferro

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Buying a share in any company listed on the stockmarket gives all long-term investors the opportunity to gain exposure to the growth in prosperity, income and dividends that good companies can achieve over the long term. This message appears to be losing relevance in the current bear market, where things such as short selling and algorithmic trading dominate the headlines, but the message is as relevant today as it has ever been.

If one believes, as I do, that the Australian global economies will continue to grow in the longer term, then buying shares in good-quality companies gives investors the opportunity to participate in this longer term wealth creation.

Of course not every company is the same, but overall a portfolio of well-managed companies with good assets should deliver good results over the longer term. Buying a share in a good-quality company is exactly that - being a part owner in profitable enterprises and enjoying an income stream from dividends and the capital growth that should ensue from the investment over time of the retained earnings of each company.

Given the cautious mood of investors, many companies are now trading at very attractive valuations and producing much higher dividend yields than the cash equivalent of most fixed-interest investments, especially when the benefits of franking are included. If one looks over the last 20, 50 or 100 years, investing in good-quality companies has been extremely rewarding for investors and for all the above reasons, investing in good quality companies on the sharemarket should always make up a good part of portfolios of most longer-term investors such as superannuation funds.

Of course one has to be very selective, particularly in Australia where our index is dominated by the four big banks and large resource companies. We have always focused on companies with strong competitive advantages, recurring earnings portfolios run by capable management teams and which are trading at reasonable valuations. Through being very selective and with careful research, we have been able to deliver healthy returns to our investors in the 14 years since our inception, despite the sharemarket corrections of 2001 and the most recent one as a result of the GFC.

While it seems easy to join the herd proclaiming one should sell out of equities into better-performing asset classes such as fixed interest, cash or infrastructure, this is the wrong time to do it. The current cautious mood of investors means many companies are very reasonably priced and now is not the right time to be switching into fixed-interest investments.

So I remain a believer in listed equities and the wonderful income streams that companies such as Telstra, Amcor, CSL, CBA, Woolworths and Orica have produced over the last 20 years - and which they will continue to produce for many decades yet.

So don't listen to the doomsayers - if you, like me, believe that Australia's economy will continue to grow over the next 20 years, now is an excellent time to be accumulating shares ■

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