The On-going Enquiry Debate

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Some months ago, a leading national newspaper stated as headline news that investors should move away from traditional forms of savings and give serious consideration to an equity strategy.

The article, whilst skirting around some of the inherent risks involved in share ownership, for example, the very serious problems experienced by BP in the Gulf of Mexico in April 2010 resulting in a 54% fall in the share price, made a great deal of sense.

I am a firm believer that over the long term, the perception of equity risk can be overstated, particularly in a broadly diversified portfolio, many UK equities, which pay attractive dividends, have performed well in times of global economic uncertainty.

One of the principal arguments for moving away from cash deposits is the realisation that with current domestic interest rates seemingly locked at ?% and inflation running at circa 5%, the real return on cash is a negative return of 4?%.

Whilst investors often accept there is a cost in holding risk-free investments in times of uncertainty, consideration should always be given to long term preservation of capital, i.e. purchasing power. It does not take a mathematician to work out that an annualised 4.5% diminution of capital over a prolonged period is extremely damaging to one's wealth. Savers who have, in the past, experienced high levels of inflation and sub-inflation returns will bear witness to this statement; the only saving grace, for some, was that the value of real assets in the form of property, commodities and shares responded positively due to inflationary growth in sales and inventory.

There have been many examples where small sums invested in companies have grown significantly in value. Most recently commodity-based stocks have performed strongly, e.g. £1,000 invested in BHP Billiton in January 2003 is now worth £8,250; furthermore, the annual dividend has grown by 600%. If you were fortunate enough to have invested $1,000 in Apple Inc in 2003, the current value would be $30,000.

The top ten companies in the FTSE 100 Share Index, which is weighted by market capitalisation, includes Banks, Oils & Gas, Telecoms, Pharmaceuticals, Tobacco and Mining and produces an average yield of 3.3%. Most enjoy global earnings, strong franchises and exposure to the growing economies of the emerging markets which remain flagged as key areas for future growth.

It is not unreasonable, therefore, to expect that these companies will continue to feature amongst the worlds largest commercial corporations and experience positive earnings growth over the longer term which should filter through to attractive shareholder returns in terms of both capital and income.

Potential investors should be aware that the price of securities and income from them can go down as well as up and the amount originally invested may not be received back in full. The past performance of a security or market is not necessarily indicative of future trends. Statements made herein represent the views of the writer and are given in good faith but without legal responsibility and are subject to change without notice.

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