COLUMN

Investing in shares means buying a business

MONEY MATTERS
Mark Williams

What are investors referring to when they say "don't put all your eggs in one basket?"

In investment terminology this is called diversification, which entails the spreading of an investment between shares, property, bonds and cash – both locally and offshore – to achieve a reduction in risk.

The principle is based on the assumption that the respective asset classes and geographic regions perform differently under the same conditions and thus offer investors the opportunity to hedge their bets.

Globalisation, however, seems to be testing this well-established principle, since we see asset classes all over the world reacting similarly in response to freely available economic data.

There is, however, an asset which still appears to offer investors the opportunity to diversify their portfolios away from traditional investment markets.

The investment I am referring to is an investment in physical property.

The reason for the low correlation in performance to other investments is based on the unique characteristics of physical property.

Ironically, these characteristics are often seen as disadvantages to investing in property:

- high cost of entry and exit;
- illiquidity (inability to turn into cash quickly); and
- lack of pricing (valuation).

Investors in physical property are not able react to market shocks, owing to the high cost of entry and exit and the time lags in buying and selling property. They are very often not even aware of the loss in value and are not overly concerned as they continue to receive the rental income irrespective of the reduced underlying value.

For these reasons, investors in physical property focus on the long-term, which is the secret to their success and why you so often hear them saying "I have never lost money in property".

The truth is they either didn't know or couldn't do anything about it.

In direct contrast, investors in listed instruments are fully aware of the daily losses or gains and are able to buy and sell instantly at relatively low cost.

This is a recipe for disaster as emotions influence short-term decisions and invariably result in losses.

The current volatility (market correction) surrounding Brexit is a perfect example of indiscriminate, across the board fear-driven selling, which destroys long-term wealth.

When you invest in shares you are buying a business, what does it matter if the share prices fall by 10% owing to Brexit? Ignore this short-term volatility as a long-term business owner would ignore the daily paper value of his/her business.

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