



Long Term Investors Profit from Shares

While we would never consider having our home or property valued on a daily basis the mechanism called the Australian Stock Exchange does this for publicly listed Australian companies (shares). Many property investors may have recently experienced large falls in valuations on commercial and residential direct property yet not even realise this as they are not selling. As such they only have an approximate idea of current values not the harsh market reality. Share investors face this truth each day as buyers and sellers trade, resetting prices often many times a day.

Despite the fact that Rio Tinto or BHP share prices may move dramatically up or down during the course of the day nothing has necessarily changed within the company – only the price of the company. Often otherwise logical investors show an irrational streak in regards to share market valuations and their inherent fluctuations. Inexperienced or emotional investors may be better off investing in direct property where they are only exposed to real values upon purchase and sale. Also they wouldn't ever think of trading the property within a minimum of five years, thus giving it time to smooth out anyway.

Ultimately there are only 3 asset classes: Equity, property and cash. Market returns from equities are inherently volatile but reward long term, diversified investors with greater returns than property or cash. Even a small percentage difference in profits may equate to hundreds or thousands of dollars over a long term.

This allocation bias to equities/shares is evident within public super funds. For example why would the trustees of Auscoal or Sunsuper place such high percentages of their balanced funds into shares and so very little into property? Given that members are more vocal about a year with poor returns than singing the trustees praises for good returns. Why would they recommend shares? Because it will be in their member's long term interest. The same applies to financial advisors who have the key role of educating clients so they have successful investment experiences.