Shares 'for long term'

KRIS HALL

INVESTMENT specialists are urging New Zealanders to understand that betting on shares is a highly complicated game played over many years, if they harbour true ambitions of generating wealth.

Fund managers warn that too many people are lured into the equities game by brief market rallies, armed with inadequate buy-hold strategies.

"Kiwis need to change investment horizons," Elevation Capital managing director Christopher Swasbrook said.

"We tell people: 'Do not give us money you can't invest for at least five years' because, absolutely, people are too short-term focused."

Whether a market was up or down from day to day was irrelevant to retail investors, said Mr Swasbrook, a former Goldman Sachs JBWere broker, because substantial returns could only be generated over sustained periods.

Retail manager Elevation Capital focuses on acquiring stocks trading at a discount to their net asset value, with low-debt levels that have a history of paying dividends. In short, it tries to buy something worth a dollar for less than a dollar.

"New Zealanders think a share is a piece of paper that's readily tradeable and speculative. They do not understand they own a piece of a business. If you want to own a piece of a business, you want to own it for a long time and let the power of compounding take effect," Mr Swasbrook said.

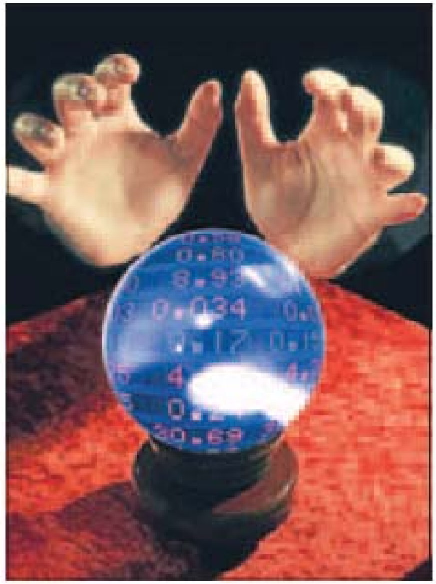
Global markets have been savaged in the past 18 months, highlighting just how volatile the asset class can be. The NZX 50 index fell 33 per cent in 2008 and has slipped out 7 per cent since the start of the year, but the losses are modest compared with some global indices.

Although there might be some significant rallies in the short to medium term, these would not be enough to claw back the significant losses that investors would have experienced during the prolonged slump, said New Zealand Funds Management chief investment officer Michael Lang.

According to Mr Lang, the last true bull market stretched from 1984 to 2000. Then markets went sideways until last year's collapse, and are set to move unpredictably until the next bull period in seven or eight years.

History showed that when markets overshot on the upside, they also undershot on the downside. "That's what we're in the midst of doing now, and that's not a 12- to 24-month thing, it's a six, seven, eight-year process.

"That doesn't mean you can't have spectacular rallies. In the 30s, there was a terrific 50 per cent rally, and in the 70s and early 80s, you had some terrific gains, but the markets gave it all back."



Endurance test: Experts say share investors need to have a long-term strategy.
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