Shares Need To Become More Likeable For New Zealanders To Invest In The Sharemarket

Shares are not a very popular investment with New Zealand investors. For the good of our economy and our investment portfolios, shares need to win a few more friends.Only around 10 percent of New Zealanders own shares compared to over 40 percent of Americans and Australians. You can point to many reasons for why shares are so much more popular overseas than they are in New Zealand.

For starters, our alternative investments are so much more attractive than they are overseas. Even though our government stock rates and term deposit rates are currently only barely over 4 percent, they remain the highest in the developed world. Investors overseas are lucky if they earn 0.5 percent on cash and 2 percent on bonds.

New Zealanders are happy to stick their savings in fixed income where the returns are okay, than bother investing in the sharemarket.

The other alternative to shares is of course property. It has done exceptionally well for New Zealand investors since the 1960s and remains an important and excellent investment.

The elephant in the room is of course tax. Property investment has tax advantages over shares and these tax benefits are undoubtedly are a key attraction for many investors. The Tax Working Group that is reviewing our tax regime has highlighted property as a problem area.

New Zealanders have $200 billion of money tied up in investment property and not a cent of tax is received on this money. In fact it goes the other way - the IRD distributes refunds of $120 million on this massive lump of capital.

To give you an idea of size, all of the companies on the New Zealand sharemarket currently have a collective worth of $40 billion. Perhaps half of this value is owned by overseas investors, meaning that the investment property market is about 10 times the size of the locally owned sharemarket.

Shares have an image problem with New Zealanders and a lot of work needs to be done to overcome these negative perceptions.Small shareholders need to gain more confidence that their boards, in particular the independent directors, are acting to protect their interests. Executive remuneration is a hot issue, and rightly so. Managers must be remunerated to perform but also to manage risk.

Communication is also important. Small shareholders appreciate frank and candid communication from their companies rather than marketing spin.

Education is another issue. Shares are admittedly relatively difficult to research. It is arguably easier to assess whether a house is a good investment than it is to analyse a share. Share brokers and analysts have a lot of work to do here. Our reports need to have less jargon and be written in plain English.

Share brokers should also work more with the likes of the NZ Shareholders Association who do sterling work in helping educate people about investing and shares. It is also a pity that investment doesn’t yet feature prominently in the school curriculum.

An important part of this education process should include advisors and share brokers advising people not to treat the sharemarket as a racetrack. So many investors shun blue chip companies in favour of minnows or high-risk shares. While these companies can make interesting, not to mention entertaining, niche holdings, serious investors should focus on the best companies.

Investors who do best in shares tend to buy high quality companies that pay solid dividends. When it comes to shares, cash flow is king.

The two best things about shares are dividends and the ability to buy small parcels. Unlike property where you have to invest a lot of capital in one building, with shares you are able to invest small amounts in many companies.

This diversification is incredibly valuable to protect against risk and many investors do not use this diversification advantage enough. Shares also provide a very good income stream from dividends. Better returns tend to come from owning shares that pay you to own them.

So, there is much work to be done before we get Kiwi’s enthused about the sharemarket. But it is worth the fight. If, as a country, we can shift some capital from property and into businesses, whether they be listed businesses or unlisted, it will have a positive impact on our economy, both in terms of growth and jobs.