Eight reasons to buy shares

BY : DAVID KUO

It is possible to build a portfolio of shares that provides a dividend yield that is higher than money left in a bank's savings account. By curating the portfolio carefully, it is possible to also achieve rising dividend income. IMAGE: PIXABAY

THE recent rise in bond yields has certainly put the cat among the pigeons. It has ruffled a few feathers by raising the spectre of inflation. More importantly, it has brought into question the purpose of central banks. Are they there to control inflation, or should they involve themselves in areas such as curbing unemployment and stimulating economic growth?

It isn't always possible for the three objectives to be satisfied simultaneously. It is, therefore, understandable why some investors are sceptical of central bank intentions when they speak of zero-interest policies. Are they sacrificing their main remit to control inflation to, instead, drive economic growth? Are they more concerned about unemployment and the impact that could have on society?

A holistic view

Central banks are right to take a more holistic view of the economy, rather than focus on a narrow metric, namely, inflation. But just because we might agree in principle with what they are doing doesn't mean we have to sit back and let inflation erode the buying power of our savings.

The market could well be right in its assessment of inflation. Just because inflation was muted after the financial crisis of 2008 doesn't mean that it will also be subdued this time around.

One of the best ways that we can protect ourselves against inflation is to invest in asset classes that can keep pace with rising prices. My favourite is the stock market where we can choose from many companies that have pricing power. In other words, they have the ability to raise prices when they need to. Below are eight reasons why I like shares.

- ### Beating inflation

Over the last 20 years, the Singapore stock market has delivered an average annual return of about 6.2 per cent, before dividends. When dividends are included, the return is a more-than-respectable 8 per cent. The returns can, admittedly, vary from one year to the next. However, long-term investors should be looking for returns that can beat inflation over the long run, which shares could provide.

- ### It's easy to buy and sell shares

Compared to other investments such as art, fine wines and other exotic assets, shares are comparatively easy to manage - they can be bought and sold quite quickly. And unlike, say, selling a property, you can sell just part of your share portfolio with comparative ease. Additionally, brokerage fees on transactions have come down significantly. Some brokers don't even charge commission.

- ### More information than ever

Gone are the days when investors had to scratch around for information about companies that they are interested in. Today, brokers provide clients with a swathe of information about companies. This not only relates to historical performances, but also useful forecasts about how businesses might perform in the future, too.

- ### Invest in the products you like

If you like a particular company's products then chances are that other people may like it, too. So instead of just forking out for the company's goods or service, why not buy a share in the business. Take a look at the things that you buy regularly. Do a bit of sleuthing and look up the company that is responsible for making them. Then look up their financial details.

- ### Dividends

One way that companies reward shareholders is through the payment of dividends. This is a share of the profits that companies make, and it represents real cash in the pockets of shareholders. It is possible to build a portfolio of shares that provides a dividend yield that is higher than money left in a bank's savings account. By curating the portfolio carefully, it is possible to also achieve rising dividend income.

- ### Capital growth

Capital growth is perhaps the main reason why most investors buy shares. In the short term share prices might fluctuate, which can give the impression that investing in the stock market is risky. But profits at good companies tend to grow steadily over time, and it is the profit growth that could drive share prices in your portfolio.

- ### Diversification

It will not have gone unnoticed to homeowners that house prices have appreciated considerably in recent years. This means that a greater proportion of our wealth may be tied up in bricks and mortar, which can be risky if house prices should fall. However, we can go some way to redressing the imbalance by increasing our investment in other assets such as shares.

- ### It's fun

And finally, it can be fun to invest in shares. If you are new to investing, then joining a group of like-minded people can be one way to get started with shares. Just talking about investing with other people could be the first important step we take to achieving our own financial goals.

So, there you have it - my eight reasons to buy shares. If you are new to buying and selling shares, you could start today with a low-cost index tracker, which is an effortless way to get immediate exposure to a basket of shares in the stock market.

The writer is co-founder of the Smart Investor