What is the **Benefit of Investing in Shares?**

Quality shares (and managed share funds) are expected to generate higher returns than most other asset classes over the long term. The return from quality shares comprises a growing income stream as well as capital growth.

How do shares generate a growing income stream – and capital growth?

Quality shares (and managed share funds) generate a growing dividend stream for investors. As you can see in Chart 1*, the annual income generated by a $100,000 investment in shares since 1983 (with income not re-invested) started off low, but then gradually built up. In fact, last year's income was $69,175, or 69% on the initial $100,000 investment.

The reason for the increasing dividends from shares is that quality businesses do not distribute all of their profits to shareholders. They retain some of their profit each year and use it to invest in the business – to help it grow.

If this is done well, it means they'll have more profit the next year – from which they can afford to pay shareholders a higher dividend than they did the previous year.

Plus they will again retain some profit for re-investment. So the next year their profits will hopefully be higher again, allowing the company to distribute an even higher dividend while still retaining more profit for re-investment. And even more the next year. And so on.

Of course, the more the value of the company grows as a result of the re-investment of the retained profits, the more the market will recognise this and people will pay more to buy their shares. Hence the capital growth.

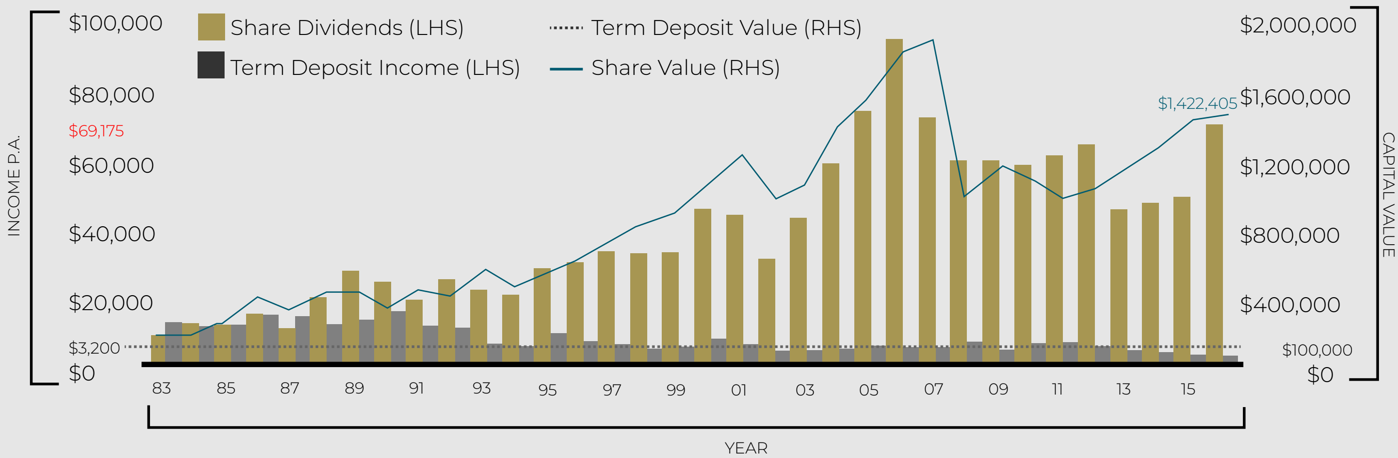
Compare the income stream from shares to a well-known income producing investment – the term deposit. As shown in Chart 1, a $100,000 investment in term deposits since 1983 did well while interest rates were at historical highs, but then income dropped away to just $2,450 or 2.45% in 2016.

Compare that to the $69,175 income from shares last year.

In fact, since 1983, the $100,000 investment in term deposits generated a total income of just $238,700 compared to $1,249,579 from shares. Add to that the $1,322,405 in capital growth from shares – as at 1 January 2017 – and you have a total return of $2,571,984 from shares, compared to $238,700 from term deposits, as shown in Table 1.

Table 1: Shares ahead by $2,333,284 since 1983*		
1 Jan 83 – 1 Jan 17	**Shares**	**Term Deposits**
Total Income	$1,249,579	$238,700
Growth	$1,322,405	NIL
Total	**$2,571,984**	**$238,700**

Chart 1: Shares Generate a Growing Income* ($100,000 invested from 1 Jan 1983 - 1 Jan 2017. Income not re-invested.)



* Assumptions and sources: Assumes $100,000 was invested in the relevant index at 1 January 1983 and income was not re-invested. Share: These figures are derived from the All industrials price and accumulation indices to 31/12/2001, and then the S&P/ASX XNJ and XNJAI price and accumulation indices. On an anuual basis the percentage increase in the accumulation index less the increase in the price index reflects the dividend generated. Franking credits have been ignored. Term Deposits: 1 year Bank Fixed Deposits - Reserve Bank Australia. Term Deposit is rolled over every year. Past performance is not an indicator of future performance.

What is the risk of investing in shares?

All shares and managed share funds experience volatility. Their values all go up and down – on a daily basis. That's because shares are easily traded on the stock exchange. You can buy and sell shares almost whenever you want. The trade-off for that liquidity and convenience is a bumpy share price.

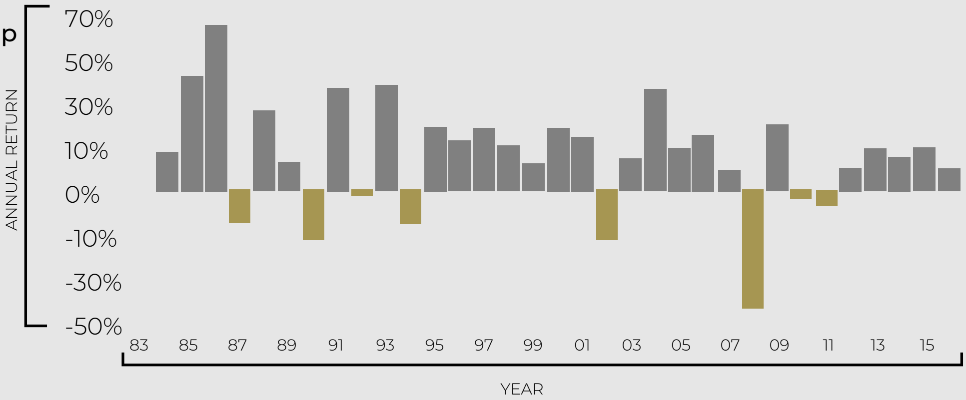
However, with quality shares (and managed share funds) you'll notice that over time their prices go up more than they go down. And the magnitude of the price rises are generally greater than the price falls, as shown in Chart 2 of annual share market returns.

As a result, over time your shares should generate solid capital growth. In fact the longer you hold your shares or managed funds the less likely you will have a negative return, as you can see in Chart 3.

Chart 2: The prices of quality shares go up more than down

S&P/ASX All Industrials Accumulation Index

(1 Year Annual Returns)

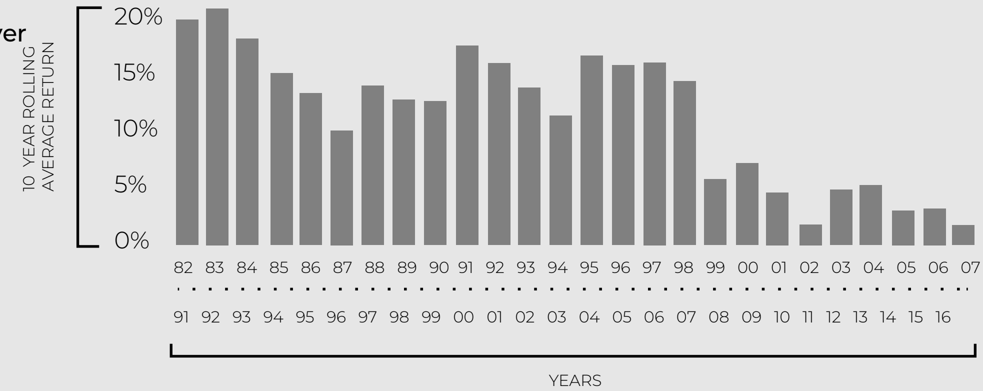


This graph is for illustrative purposes only.

Past performance is not an indicator of future performance.

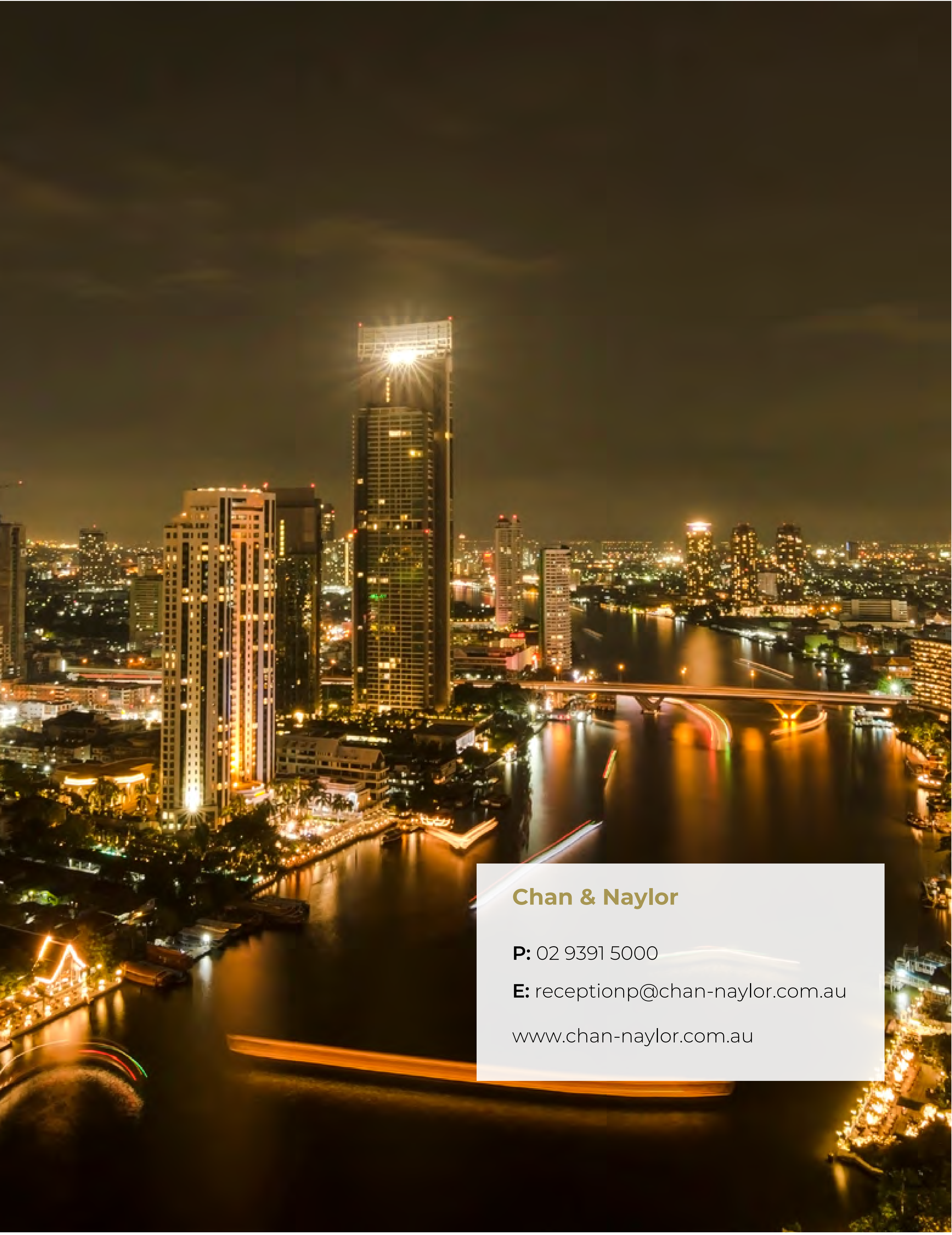
Chart 3: Shares perform consistently over the longer term

10 Year Rolling Average S&P/ASX All Industrials Accumulation Index



This graph is for illustrative purposes only.

Past performance is not an indicator of future performance.



Chan & Naylor

P: 02 9391 5000

E: receptionp@chan-naylor.com.au

www.chan-naylor.com.au