Looking for a fair share

Owning a piece of a successful company is not only for the wealthy

If you're like me, the first thing you will do once this flight has landed is switch on your mobile phone to check and send messages. Many of us could not operate without a mobile phone, but have you ever considered what it would be like to own a share of the company that made your device? What about owning a share of the company that writes the software for the applications you download, or perhaps a share of the company that streams your music?

This may all sound a little far-fetched unless your name is 'Elon', but this is the essence of owning a share portfolio. Having a share portfolio literally means you own shares in each of the companies in which you invest. With this comes all the attendant benefits of owning part of the company and indeed, from time to time, the risks too.

Share portfolios are often thought of as only for the rich or affluent, but this need not be the case. Indeed, over the years it has become easier to invest in shares and to have a portfolio tailored to your specific needs and requirements. But why would you consider investing in shares, and what are the benefits and risks involved?

Some are lucky enough to be given or to earn shares by virtue of working for a company that is either listed on the stock exchange or that intends listing in an initial public offering. For example, when Google listed in 2004, company employees were gifted shares or had the option to purchase shares before the shares listed at US$85. Had you invested US$1,000 in Google at the time of listing, your shares would now be worth in excess of US$1,000,000, representing a staggering 116,000% return. Of course, Google's performance has been exceptional, and it is important to note that where there is reward, there is risk, even with the most successful household names.

Or take Apple, which listed in 1980 at US$22 and by 1981 had lost 35% of its value. After a recovery and years of gains, in 1993 the share price fell by 50%, and after gaining 211% in 1998 and a further 151% in 1999, the following year the share price plummeted by 71%. Since that time, however, the iPhone maker has grown to become the first company to

73 years

The length of the marriage of England's Queen Elizabeth II and Prince Phillip.

28

The number of websites North Koreans are allowed to browse.

reach a value of US$1 trillion in 2018, the first to hit US$2 trillion in 2020, and then briefly US$3 trillion in early 2022. Indeed, the highs and lows can be spectacular. On 4 January 2022, Amazon set an all-time record for a single-day gain by increasing its market value by US$190 billion in a single day!

No guarantees

Shares do not inevitably increase in value over time, of course. Consider, for example, that Meta (the holding company of Facebook), experienced a decline of US$232 billion in a single day on 3 February 2022. Notably, Apple had set the previous record of a single day's loss just 17 months earlier.

While Apple represents the epitome of a long-term share price success story, history is littered with share price failures and collapses. Way back in 1494, the ubiquitous Medici Bank failed due to bad lending practices, the absence of what we now term corporate governance and profligate behaviour by the owners. Regrettably, these features continue to characterise contemporary failures such as Bear Sterns, Lehman Brothers and more recently Silicon Valley Bank and Credit Suisse.

Uncomfortably closer to home for South Africans on this flight, the failure of Steinhoff in December 2017 saw its share price collapse from R46 to R6 in under three days, leaving literally thousands of shareholders holding practically worthless paper that is unlikely to recover anywhere near its previously artificially inflated price.

So, what lessons can be drawn from this picture of the stock market? Firstly, despite the sometimes acute periods of stock market volatility, such as that experienced since the COVID pandemic, shares (sometimes known as equities) have outperformed all other conventional asset classes of investment over the longer term. In these periods of exceptionally high and persistent inflation, shares often provide a hedge against inflation too.

Investing in a share portfolio not only allows you to participate in the benefits of compounding value as well as dividend income but is also a useful form of wealth diversification. As such, share portfolios can serve as an important element of personal financial planning and risk management. Regarding diversification, when considering constructing and investing in a share portfolio, local and global factors are key considerations. While South Africa is home to a number of world-class, highly profitable companies offering great value, the Johannesburg Stock Exchange ranks 17th in size globally and has a listed market capitalisation approximately that of Google. So, even if you have been gifted shares in a company or you know a sector particularly well, a concentration of wealth in one country, a specific sector or just one or two companies carries considerable risk.

Share portfolio investing can be enormously exciting, for example, allowing you to attend, speak and vote at annual general meetings. Modern platforms are also making it easier (though, in some cases, riskier) for investors to get onto the first rung of the stock market. But equally, stock markets are complex, and it takes great skill to construct a globally balanced share portfolio that delivers real risk-adjusted returns over the longer term.

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