Will Shares, Bonds, or Property Make You a Millionaire?

Description

Just as there are millionaires in almost every field of work, shares, bonds and property have all produced millionaires. However, the three asset classes differ in their chances of making you a millionaire, with bonds offering the least capital gain potential of the three.

Bonds

A key reason for this is the lower risk profile of bonds. By their very nature, they are less risky than shares since bondholders rank higher in the case of default than shareholders. This means that bonds are a good means of generating a return while also reducing the risk of a portfolio.

However, their potential rewards are also lower. Shareholders have the opportunity to benefit from an improved financial performance by a company. This could be because of new products, cost cutting or an improved economic outlook. It may result in higher dividends or improved investor sentiment bidding up the price of the company’s shares. However, in the same situation, bondholders will only benefit in so far as the chances of default could be lower. Their return is the same whether a company performs as expected, or much better than expected.

Property

Clearly, property prices across the globe have risen dramatically in recent years. Part of the reason for this has been an increasing availability of credit, but higher demand for property has also boosted house prices.

Looking ahead, world population growth of a third over the next 34 years is likely to maintain upward pressure on property prices. This should act as a positive catalyst on valuations across the sector and could lead to considerable capital gains. That’s especially the case if central banks maintain a relatively dovish stance on monetary policy.

However, the reality is that property offers less total return prospects than shares over a long period. That’s because there are fees associated with property which are not present with shares. For example, renting out a property will entail void periods, estate agent fees, taxes and the risk that a tenant will not pay rent. With shares, it is easier to shelter returns from tax and ongoing management fees are usually minimal. Furthermore, it is easier to diversify with shares since transaction costs are significantly lower than with property.

Looking ahead

Of course, shares offer a rather uncertain outlook right now thanks to risks to the global economy such as a US interest rate rise and Britain leaving the EU. However, such challenges present an opportunity to buy high quality companies at potentially distressed prices. This could lead to even higher total returns in the long run and enhance your chances of making a million.

By investing in shares over a long period of time it is possible for almost anyone to generate a seven-figure portfolio. Certainly, owning bonds and property within a portfolio will help to improve diversification and could lower risk. But in terms of which asset class offers the best chance of generating a million within a lifetime, shares are the winner.

CATEGORY

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Author
peterstephens