3 Reasons Why Shares Beat Other Assets

Description

While stock markets across the globe may have reached record highs this year, shares could still offer the best risk/return ratio when compared to other assets. Certainly, there have been times when investing in shares offered better value for money than today. However, with higher spending in the US potentially ahead and investor sentiment being relatively strong, buying shares could still be a worthwhile endeavour.

Returns

Historically, shares have generally outperformed other major asset classes. While there have been periods of time where property has beaten shares and bonds have proven to have been a more sensible investment, in the long run the stock market's high-single digit annual growth has been relatively strong.

Therefore, even though share prices may not be at a particularly low level at the present time, buying for the long term continues to make sense. The world economy may face an uncertain future, but the potential for higher spending in the US and opportunity for growth in demand for consumer items and financial products across China and the emerging world may mean opportunities to buy high-quality companies remain compelling.

As a result, the returns from shares could rise, rather than fall, in future years. That's even though stock markets may not be viewed as 'cheap' by most investors right now.

Liquidity

As well as the potential for higher returns, shares offer superior liquidity when compared to most other assets. Although cash is clearly more liquid than shares, the returns on cash mean that it is unlikely to be a realistic option for most investors in the long run. More relevant is comparing shares with bonds or property, which can often be key parts of investor portfolios.

In the case of property, it remains a highly illiquid asset. While shares can be bought or sold at the click of a mouse button, property takes weeks and potentially months to buy or sell. Therefore, should an investor require cash at short notice, property would not usually be of great assistance. And while bonds offer significantly better liquidity than property, a lower number of market participants means that it can take time for even an investment grade issue to be bought or sold – especially in significant volumes.

Variety

Alongside higher liquidity and potentially greater returns, shares provide an investor with variety. Anyone, anywhere can invest in a range of companies in a range of different sectors. The companies in question may operate across the world and therefore provide the investor with access to the fastest-growing regions of the globe.

While it is possible to purchase property or bonds in other countries, understanding the legal framework can be difficult and time-consuming. Shares, on the other hand, provide easy access to a range of industries and markets so as to potentially improve the range of assets held. This can not only help to improve returns in the long run, but may also provide a better balance between risk and reward, too.

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Date
2025/08/27
Date Created
2017/06/17
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