



# Fisher Funds

## Investor Education Centre

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### **The Sharemarket Odds are in your Favour**

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There are many people who are convinced that the share market is like a giant roulette table, with the odds stacked firmly in favour of the house.

That view has been reinforced to the doubters by the market's recent volatility which has left many investors with sweaty palms, racing heartbeats and other symptoms commonly associated with gambling. But, the share market is far from being a casino, and the odds are very much stacked in your favour.

Right now, the tables are tilted even more in your favour as an investor, because the share price falls of the past year have left many share prices well undervalued, which could lead to even better returns in the future when profitability is restored.

When you buy a share (or stock) you become part owner of a company, and that ownership gives you a claim on the company's profits. If your company increases its profits, the value of your ownership stake will increase. So when you invest in shares, you are taking a bet of sorts – you are betting on the likelihood of rising profits over time.

The odds are in your favour because over many, many decades, companies operating in different countries and in different sectors have grown their profits. It's not just a case of a few lucky companies becoming profitable over time, rather we have seen company profits improve as economies have developed and consumers have been prepared to buy more goods and services. It's actually a virtuous circle – as we invest in companies, we provide them with more capital, which allows them to grow and be profitable, so that we can be rewarded for investing in the first place.

Of course there are periods when economies slow down, making profitability that much harder to achieve. We are now going through a significant economic slowdown and some companies have not only stopped being profitable but have incurred losses. Their share prices have fallen and shareholders have seen their investments lose value.

But that doesn't mean there are no longer good odds for future returns.

On the balance of probabilities, if you have invested in companies that have consistently been profitable in the past, there is a good chance they will be so again. Certainly over the last few hundred years, business profits have increased in far more years than they have decreased. Rising profits will lead to rising share prices and share prices will rise again.

There are many good, sound companies that are now well undervalued that will return to profitability when the mood of the investment community changes. Now is a good time to talk to your investment advisors and identify which companies they will be.

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