Fisher Funds Investor

Education Centre

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Asset sales debate mired in slogans and dogma

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Broad assumptions about investing can be dangerous. It is easy to dismiss or fall in love with investments on the basis of sweeping generalisations. However, generalisations are often an excuse for intellectual laziness or a lack of rigour in our thinking.

Broad brush statements such as "gold is the best investment", "Australia is the lucky country" and "emerging markets are risky" will not always steer us in the right direction. Similarly, sweeping comments about the overall direction of the share market overlook the individual constituents – not all shares in a market will be heading up or down at the same time.

And so it is with some of the debates I've heard about the SOE privatisations. Clearly asset sales were a contentious element of the election campaign, and the National government now has a mandate to pursue the five asset sales outlined it its manifesto. Unfortunately the asset sales discussion has been based on limited information and given rise to generalisations that may influence investors' thinking.

The most controversial issue is around foreign ownership. The comments about New Zealand's assets being flogged off to foreigners have cast a negative pall on the SOE mixed ownership model.

But there is an enormous difference between foreign ownership and foreign control. We know that majority ownership and therefore control of the SOEs is going to remain within New Zealand.

If some astute Australian, US, European or Asian investors decide to buy some shares in Meridian Energy, is that such a bad thing?

If they have a good experience with Meridian or another SOE, they might be tempted to look at other New Zealand listed companies, which will bring new funds to the New Zealand share market increasing its depth and liquidity which is good for all of us.

There is a danger that all SOEs will be lumped in the same basket as being good or bad investments. But we are going to be offered five different companies each with different growth strategies and investment characteristics. Some will offer a predictable and competitive dividend yield so will be great for risk-averse investors. These will be the closest thing we've got to blue chip companies. Others will offer capital growth prospects and a lower dividend yield, for those investors with a longer investment timeframe and a bigger appetite for risk.

I also get the sense that some investors will jump at the SOEs because they perceive them to be safe. Again, it is dangerous to assume that just because the Government owns a majority stake in a business, it will always make money and be a sound investment.

A Government ownership stake is a different thing to a Government guarantee.

As with every investment decision, the SOEs and indeed any other new share market listings, need to be considered on their merits and on their appropriateness for you, given your investment objectives and your existing investments.

The time for one-liners, emotive pleadings and sweeping generalisations ended with the election last weekend.

Now it’s time for detailed analysis of every specific proposal put in front of us.