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The University of Auckland Investment Club
Bulletin Research Team 2020

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The Editor's Note

WRITTEN BY NIKHIL LUTHRA

As week 1 of our mid-semester break wraps up, I hope all our student readers have found some time to relax and recharge. Perhaps reading this week's edition will help. We take a look at another diverse set of topics, ranging from the NZ pension scheme to ethically dizzying sin stocks.

One of my favourite books is Peter Lynch's "Beating the Street". Within it, he reflects on an experiment he once heard about. A teacher asked his class of 11-year-olds to form portfolios consisting of any stocks they want. The only condition is that they had to explain what the company does to the class. As you can imagine, several familiar big-brand stocks like Nike and Walmart were bought.

The real surprise was that this portfolio produced a 70% gain over two years, outperforming both the S&P500 and 99% of mutual funds on Wall Street.

This is personally one of my favourite investing anecdotes. It demonstrates how to break down a seemingly complex industry to its very basics. If there is a story that investors of all competencies should remind themselves of, it is this.

For the returning readers, I hope you enjoy this week more than the last. For the new readers, welcome! Enjoy the opinions of my writers and look out for another copy coming next week!

"Never invest in any idea you can't illustrate with a crayon" - Peter Lynch

CONTRIBUTORS THIS WEEK

Ananya Ahluwalia is keen to investigate the intersection of technology and the consumer. She is writing a piece about the streaming landscape and the future it holds.

Shyam Prasad-Jones is exploring the behaviour of sin stocks and the ethical conundrums they bring.

Logan Rainey is always keen to yarn about political policy. Logan is challenging the current pension scheme in NZ.

Sean Spires is a true contrarian investor. Always mildly irritated at mainstream investing, Sean is challenging index funds and their usability in his article this week.

Nicholas Simmons is truly passionate about all things finance. This week he takes a look at current capital raises around the globe.

UAIC so far in 2020

WRITTEN BY CO-PRESIDENTS CONNOR MCDOWALL AND DAVID SAUL

The start of 2020 has been both exciting and challenging for UAIC. In the current climate, we continue to provide our members with the opportunity to learn value investing, build meaningful relationships, and develop a passion for finance. The UAIC Executive team strive to make club activities as normal as possible while prioritising the safety, health, and well-being of our members. The UAIC calendar has been and will continue to be, action-packed.

Over 175 new members attended Opening night on the 11th March. We outlined UAIC's vision for 2020, emphasising UAIC welcomes anyone and everyone from any professional, personal, or academic background. The executive team ran through UAIC's line up of events with Alexander Morreau, Daniel Blair, and Chris Wong shedding some light on their experience working in Industry.

The momentum on opening night continued into the next week as we launched the Citi Global Markets Challenge. 20 teams registered to compete. Around the time of case submissions, COVID-19 sent New Zealand into a level 4 lockdown. Four teams were selected to represent the University of Auckland in the Campus Heats. Citi held the Campus Heats, hosting virtual presentations for the best 32 teams across Australia and New Zealand. We congratulate Zi Yuan Tee, Dweep Kapadia, Edward Zhang, and Benny Chun. They were selected to represent the University of Auckland in the Campus Finals, coming out as the top team from the University of Auckland. Their portfolio analysed the impact COVID-19 would have across Equities, Fixed Income, and Commodities.

Bulletin and Investment Committee roles were in hot demand. Nikhil Luthra and Nehaal

Ram interviewed over 90 candidates across two weekends. The quality of candidates was outstanding, with the selection process producing two teams that will produce our Bulletin and manage UAIC's fund for 2020. Analysts from the Investment Committee successfully pitched Nearmap Ltd (ASX: NEA) and Sims Metal Management (ASX: SGM), passing the qualitative phase and progressing to the quantitative phase in the Investment Committee's pitching process. UAIC started a new partnership with MYOB to publish the Bulletin. Nikhil and his team produced an outstanding first issue with more in the pipeline.

Our marketing team is innovating in a time of uncertainty. Jade Beckman and Nikita Deva are streamlining our marketing processes to bring you quizzes, questionnaires, and content to satisfy your social thirst for finance. Follow @officialUAIC on IG to keep up to date on the content to come.

Raewyn Leow piloted UAIC Social's first Kahoot quiz last Friday to bring a UAIC social experience back to your bubble.

Our Women Engagement Initiative is moving forward with our Mentoring Program. We have a group of outstanding role models onboard to mentor the women of UAIC. Applications for this program will be released soon.

UAIC Education will continue to keep you informed. They are producing summaries on two news articles weekly. Both Chris and Trib will bring qualitative pitching tutorials to our members to inform how to analyse the qualitative approach to valuing an investment.

Our Competitions Team is working to bring UAIC's Stock Pitch Competition to Semester 1. The competition will go live on the 11th of May. More details are to come.

In summary, UAIC is moving forward in this challenging time to give our members normalcy during New Zealand's varying levels of alert and lockdown. We plan to operate on an online model until it is safe to run events. Be smart, stay safe, and look after yourself and your loved ones. We are all in this together and will come out of this together.

An update from the fund

A RUNDOWN OF THIS WEEKS PITCHES
WRITTEN BY IC CHAIRMAN NEHAAL RAM

SELECT HARVESTS

Pitched by Tribhuvan Krishnan, Senior Equity Analyst:

Select Harvests (ASX:SVH) is Australia's largest vertically integrated nut and health food company. With core capabilities across horticulture, orchard management and food processing, Select Harvests is placed as a global producer of almonds. Seeking to optimise their almond base and develop their brands internationally, Select Harvest is projected to be market leaders across almonds and value-added products stemming from almonds. However, Select Harvests does face agricultural pressures associated with water management and commodity pricing. The Investment Committee vote has voted against passing Select Harvests, with the final vote being 6/13.

"The moment I saw Select Harvests, I went nuts" - Tribhuvan Krishnan, Senior Equity Analyst

SIMS METAL MANAGEMENT

Pitched by Nehaal Ram, Investment Committee Chairman:

Sims Metal Management (ASX:SGM) is the largest listed metals recycling company worldwide. With a well-diversified revenue breakdown across ferrous metals, non-ferrous metals, e-recycling, and waste-to-energy conversion, SGM has delivered 103 years of operational excellence and is well placed towards addressing changing industry trends. A strategy focused on delivering long-term management of resources coupled with economic moats within its Zorba Separation Plant and first-mover advantage in E-Recycling, Sims presents an alluring investment opportunity. However, Sims is also subject to negative market sentiment, significant fluctuations in metal prices and an increasing industry need for higher quality recycled metals. The Investment Committee moves to pass Sims Metal Management with a final vote of 10/13. The valuation will be headed by Nehaal Ram, Athena Churchill and Kevin Li.

"The past, present, and future of recycling towards a brighter future" - Nehaal Ram, Investment Committee Chairman

Exploring index funds

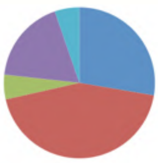
PART 2: WRITTEN BY CHRIS WONG

INDEX FUNDS EXPLAINED

Index funds utilise an index replication or sampling strategy that buys and holds the constituents of the underlying index. A constituent is a component of an index. An example includes Fisher and Paykel Healthcare (NZX:FPH) (constituent) which is part of the NZX20 (index). However, it is impractical for an investor to hold each equity position within an index by buying individual common shares themselves. For example, they may not want to buy the 20 different companies in the NZX20 due to the associated costs e.g. brokers fee. Instead, the index fund will provide investors with lower transaction costs whilst maintaining exposure to the stocks.

Though different indices may have different methods of determining an index's value, the most popular approach is to use weighted averages. The values are derived from a weighted average calculation of the value of the total size of all companies in the index. An index determines the structure and rules which must be adhered to. The most common is weight relative to the size (also known as market-cap) of the company.

These indices are referred to as market-cap-weighted indices. Examples include the S&P500 and NZX20. However, there are various methods including Price-weighted (Dow Jones Industrial and Nikkei 225) where the weighting factor is relative to the price of one share, or by other measures including volatility level, most recent dividends paid, or equal-weighted where each company has an equal weight in the index.



WEIGHTED BY MARKET CAP

If the index was market-cap weighted, Company B would impact the index performance the most, since it has the largest market capitalization.

Company	Stock Price		Shares Outstanding		Market Capitalization
A	159.08	X	206,240,000	=	$32,808,659,200
B	106.48	X	517,521,740	=	$55,105,714,875
C	13.61	X	439,280,860	=	$5,978,612,505
D	62.22	X	386,234,640	=	$24,031,519,301
E	50.37	X	98,118,740	=	$4,942,240,934

Source: SPIVA (retrieved from https://us.spindices.com/index-literacy/methodology-matters)

Recession-proof addiction

WRITTEN BY SHYAM PRASAD-JONES

DRINKING, SMOKING AND GAMBLING ARE THE PILLARS OF SIN STOCKS AND ARE OFTEN REGARDED AS 'RECESSION-PROOF' OR HAVING 'ECONOMICALLY INDEPENDENT GROWTH'. IT IS IMPORTANT TO UNDERSTAND WHY THIS IS THE CASE AND WHETHER THIS IS EVEN TRUE.

AS THE WORLD HEADS TOWARDS LIFE THAT IS MORE SOCIALLY RESPONSIBLE, WHAT SCOPE DOES THAT LEAVE FOR INVESTING IN SIN STOCKS?

As the economy moves into bear market territory, the saying 'people drink in good times and people drink in bad times' becomes more apparent. During a market contraction, sin stocks earn an abnormal return over the market, but this does not hold during expansions. The USA Mutuals Vice Fund (NASDAQMUTFUND:VICEX) averages 11.89% in annual returns since its inception in 2002. Among its top holdings are a swathe of tobacco, alcohol and casino resort companies. To develop on why this is the case, one can look towards a few factors. Sin industries have inelastic demand. The addictive nature of alcohol, tobacco and gambling turns these products from leisurely wants to into needs. Sin stocks are defensive in nature; people 'need' them throughout the business cycle. Furthermore, specific tobacco and alcohol taxes and exclusive gambling licenses provide barriers to entry for the many established companies in these industries; reducing competition. The risk of investing in sin stocks could also be a contributing factor. The new wave of socially conscious investors have avoided sin stocks, leaving the door open for other investors to earn a reputation risk premium.

On a consumer level, observational studies show an increase in binge drinkers and a decrease in total drinkers during recessions. Increased stress due to unemployment or lack of certainty are huge contributing factors to this. Faced with economic uncertainty, some look to alcohol, gambling and smoking for solace while others shun it. Looking ahead, there is no conclusion which can be drawn with zero uncertainty. Domestically speaking, New Zealand's drinking culture is something kiwis are both proud and ashamed of. The mad rush to local liquor stores in the days preceding the lockdown was evident to everyone driving around. It is hard to know how this recession will impact sin stocks exactly.

MOA Group (MOA) and SkyCity Entertainment (SKC) are two companies on the NZX who fit the criteria of being sin stocks. Border controls and restrictions on social interactions will most likely hurt SkyCity significantly and for quite some time. MOA's two areas of business, MOA Beverages and MOA Hospitality, also face a similar dilemma to SkyCity. What lies ahead is not simply a recession, but a change in the way businesses will operate to comply with COVID-19 health guidelines.

Under normal circumstances these companies might be inviting investments during these times, however, as is so heavily quoted, these are 'unprecedented' times. How quickly a degree of normality returns to the gambling and alcohol industries will likely be the determining factor in the success of SkyCity and MOA. It is hard to reason that this normality will come sooner than later.

Should a sin stock not fit with an increasingly socially conscious ethos, many other sectors and industries provide opportunities during a recession. Sin stocks do not behave differently from industry comparative stocks during recessionary periods. Healthcare, utilities and other consumer staple stocks tend to provide the safety and consistency during recessions and offer an alternative to sin stocks. Ignoring sin industries all together might be the right ethical decision, but it could also come at financial cost.

Time to rethink pensions!

WRITTEN BY LOGAN RAINEY

IT'S BECOMING CLEAR THAT OUR ECONOMY AND INDEED OUR LIVES ARE GOING THROUGH A PERIOD OF SIGNIFICANT CHANGE, AND THAT A RETURN TO THE OLD NORMAL JUST ISN'T PLAUSIBLE. AS PART OF THIS PROCESS, THOSE BIG STRUCTURAL ISSUES WE'VE LEFT TO FESTER IN OUR ECONOMY HAVE BECOME MORE URGENT TO ADDRESS.

Last year we spent around $14.5 billion on providing pensions. That's more than the amount spent on the unprecedented COVID-19 wage subsidies, approximating to around 4% of GDP. For context, we spend 1.1% of GDP on priorities like defence. Pensions are a major portion of annual spending, and arguably a ticking fiscal time bomb that will have a growing impact on the economy and markets moving forward.

The pension system was originally set up in 1898 to target poverty among elderly communities by providing living support payments to means-tested New Zealanders over sixty-five. Since then, we've relaxed the requirements to just age and residency. If we look at the measure of elderly poverty, New Zealand has been wildly successful, as we currently enjoy some of the lowest rates of elderly poverty in the world.

Without a doubt, times have changed a fair amount since 1898, the average pensioner can now expect to spend 20 years collecting the pension where once it was just a mere five years. Give it a few decades and that figure will rise to 30 years - a significant portion of one's life.

Currently, we are expected to spend around $15 billion this year on pensions alone. This is projected to increase by $4.8 billion by 2023, as the number of eligible pensioners grows by an estimated eighteen per cent. In addition to that figure, the government provides a variety of additional benefits and subsidies, think of benefits like the gold card.

Every dollar we spend on a generous pension, is a dollar less invested in outcomes for younger generations that work hard to cover the annual cost of the pension system. It's a myth that pensioners paid for their pension with taxes they once paid, pensions are paid for by the taxes collected each year from the working-age population.

The pension issue is particularly thorny with regards to whether or not the expenditure is even justified. There is a massive disparity in wealth and property ownership between the generations who receive the pension and the generations who pay for it.

Those eligible for the pension have the highest rates of homeownership in New Zealand by a country mile, and in many cases benefited from growing up in an era with free tertiary education. Nearly half of all pensioners also continue in paid employment, the most prominent example being the Deputy Prime Minister. That's not to say elder poverty isn't still an issue, but the proportion of the elderly plagued by poverty is now thankfully significantly lower.

Such spending on the elderly comes at a cost; we are chronically under-investing in the future of our younger generations by over-investing in our wealthiest generation. We've got some of the worst child poverty rates in the developed world and an entire generation struggles under the burden of student loan debt and high house prices.

This state of affairs is not only unfair, it's also detrimental to our future economic potential. Large and growing pension expenditure reduces investment in services provided to younger people. With reduced investment comes lower productivity and reduced personal consumption which flows directly onto wider financial markets. How many millennials can afford to buy property from downsizing boomers? That's just one example of the long term financial impact of our currently flawed generational investment model.

Simple measures like introducing means testing for pensions, as we do for student allowances, could reduce costs to the budget by billions. It is a clear waste of government resources to provide pensions to individuals with significant personal assets and the associated income those assets earn. It would be wise to redirect that expenditure towards investing in the productivity of the younger generation and alleviating issues such as the price of education and the high cost of first homeownership. Wouldn't that be fairer?

After all, we're only the workers and the taxpayers funding this pension every year.

Bank on binging? A Gen Z dilemma

WRITTEN BY ANANYA AHLUWALIA

TO ANYONE WHO HAS BEEN IN A COMA FOR THE PAST DECADE, BINGE-WATCHING TV SHOWS IS NO LONGER A HOBBY; IT'S A WAY OF LIFE. A SEASON PER NIGHT HAS BECOME A RITUAL, RATHER THAN THE ANOMALISTIC BEHAVIOUR IT WAS ONCE OBSERVED TO BE. THE ONE THING FUELING THIS HUNGER FOR CONTENT IS STREAMING SERVICES. WITH THEIR BANTEROUS SOCIAL MEDIA PRESENCE AND SURPLUS OF TEMPTING CONTENT, PLATFORMS LIKE NETFLIX AND DISNEY+ ARE THRIVING IN A CULTURE OUR GENERATION HAS BUILT.

BUT SHOULD WE GO A STEP FURTHER THAN JUST BEING PASSIVE CONSUMERS? IS STREAMING A SUSTAINABLE INVESTMENT OPPORTUNITY?

The infamous COVID-19 lockdown has deemed streaming sites an unofficial essential service that, under no circumstances, can be cut out to preserve budgets. The necessity of our streaming ritual is comparable to that of groceries or even toilet paper. So much so that, like the ration on hand sanitiser, Netflix is marginally reducing the streaming resolution of all their titles. This is being done to offset the predicted boom in internet traffic caused by video streaming during the lockdown period.

Given the increased demand for streaming, we'd expect correlative trends in the increased earnings (and thus, share performance) of companies that provide entertainment services. In March 2020, when the lockdown was introduced, Netflix (US:NFLX) and Amazon Prime's Amazon (US:AMZN) were two of the 30 companies on the S&P 500 that rose in the first quarter. Apart from the restraints on content creation, there isn't much impact COVID-19 has on the regular operation of tech companies such as Netflix and Disney. In addition to the increased revenue brought in by increased sales during the lockdown, they won't suffer as much as other sectors will.

Streaming companies appear to be recession-proof during this lockdown period. However, this won't be the case for long. As we know, everything in the economy comes in cycles, and I predict this upturn won't last. Once the threat of the virus dies down, and people start returning to their regular routines, they're likely to stay out in public for more extended periods. This would be to compensate for the minimal social interaction they experienced or overworking as a result of restriction quarantine has placed on income flow. There is also a chance that post quarantine consumers will cancel their subscriptions to streaming services when budgeting, since it's probable they would have exhausted the platform's content during the lockdown period. Regardless of the specific reason, viewership along with revenue is going to decrease, and consequently, stock prices will fall.

While I would discourage investing in search of short term results, I won't oppose the idea of investing in streaming with long term intentions. A fact emphasised by many experts is that the effects of the pandemic on the economy are mainly short-term. Even though it may seem like the end of the world, the economy will stabilise once again, whether that be in a few months or even a few years. This is important to realise when it comes to ad-based platforms like Roku and TVNZ OnDemand. The increase in viewership brought on by recent stay-at-home-conditions does not correlate with an increase in revenue, as businesses are cutting back on ad spend. This means that until the lockdown is over, even though engagement is at an all-time high, revenue and stock prices won't accurately reflect these business' investment potential. For example, Roku, which can be used to access Netflix, Disney+, Hulu and many other prominent players in the streaming industry, will see an increase in viewership during this lockdown period. At this point, if you buy stock in Roku (NASDAQ:ROKU) at its low stock price, eventually, when the economy regulates and businesses increase their ad spend, stock price and revenue will begin to rise once again, ensuring your investment grows long term.

Alternatively, you could invest in one or more individual platforms long term. It is common for people to have subscriptions to more than one streaming service, typically with a giant like Netflix as a staple and various combinations of other services as add-ons. People also tend to get particular services to watch a single show and then cancel their subscription once they finish it, moving on to the next service and show pairing. This suggests that while the streaming industry is competitive, these platforms aren't mutually exclusive. Their market share distribution tends to fluctuate so frequently that in the long term it would be easier to spread your investment over multiple stocks like AT&T and Walt Disney, investing in "streaming" as a whole. This would mean as streaming steals market share from other diminishing areas of the entertainment industry such as cable television, your investment would grow no matter what content the individual services host.

Opportunities to invest come and go rapidly, especially concerning technology with its exponential growth. No one would have been able to predict the sudden transition from cable tv to streaming sites, resulting in the complete eradication of the former. But from the looks of it, streaming and the cultural reset it has brought on are here to stay. This makes streaming a worthwhile long term investment option, but if you're seeking short term results, I would not recommend investing in streaming.

Corona capital

WRITTEN BY NICHOLAS SIMMONS

BUSINESS AND CONSUMER CONFIDENCE HAS PLUMMETED SINCE THE START OF COVID-19. MARCH SAW STOCK MARKETS OFFICIALLY ENTER INTO A BEAR MARKET WITH SOME OF THE MAJOR WORLD INDICES – S&P 500 – SHEDDING 34% OF THEIR MARKET CAPITALISATION OFF FROM THEIR INTRADAY HIGH. SINCE THEN, MARKETS HAVE STARTED REBOUNDING. HOWEVER, INVESTORS REMAIN UNCERTAIN AS TO WHETHER THE MARKET IS READY TO CONTINUE ITS 2018 RECORD HIGH RUN.

As for companies, earnings estimates have been reduced worldwide. Furthermore, companies have begun preparing to weather the Coronavirus storm. Both small and large businesses are seeking solutions to strengthen their balance sheets and cash reserves to better prepare for the COVID-19 storm. Numerous corporates have been plugging holes in their balance sheets via capital raises. New Zealand's Auckland International Airport (AIA) recently raised $NZ 1 billion of fully underwritten "new shares" along with a $200 million share repurchase plan. Lead joint managers were Citi Bank, Credit Suisse and Jarden. Proceeds were planned to be used to pay down debt and smoothen out the effects of COVID-19 on their short-term cash flows. AIA's new placement was equivalent to 20% of their market capitalisation and is a story similar to a lot of other corporate companies at the moment.

Whilst COVID-19 is the source of several new capital raises, it has also been the demise of many pre-existing ones. Including those affected are Warner Music Group Corp's IPO. Warner Music was forced to abandon plans to kick off their initial public offerings (IPO) due to the large fall in the markets. Warner's IPO was set to kick off mid-March. Warner is now left waiting for the IPO window to open back up again. COVID-19 has changed the capital markets landscape as we once knew it. We can expect to see a here will be a shift in the deals market more towards the acquisition of distressed firms. Furthermore, we can also expect to see changes in financial market regulations. The Financial Markets Authority (FMA) and the NZX have provided regulatory relief to market participants. Thereby enabling companies to raise capital urgently if need be.

The future effects of COVID-19 on the capital markets are uncertain. However, I believe that the coming few years are going to depend heavily on how the economy and the markets shape up in the coming six months.

The painfully average truth about indexing

WRITTEN BY SEAN SPIRES

"BY PERIODICALLY INVESTING IN AN INDEX FUND, FOR EXAMPLE, THE KNOW-NOTHING INVESTOR CAN ACTUALLY OUTPERFORM MOST INVESTMENT PROFESSIONALS. PARADOXICALLY, WHEN 'DUMB' MONEY ACKNOWLEDGES ITS LIMITATIONS, IT CEASES TO BE DUMB." – WARREN BUFFETT, 1993 BERKSHIRE HATHAWAY SHAREHOLDER LETTER

Before I delve into one of the most widely discussed questions in the investment community, that is, if one should favour investing in an index fund over picking stocks individually, I thought it would be best to first briefly describe what an index fund is in layman terms. An index fund is designed to follow certain preset rules so that the fund can track a specified basket of underlying investments. For example, if you buy an index fund that tracks the performance of the top 500 largest publicly listed companies in America, the performance of your index fund will mirror that of how the stock prices of these 500 companies move in aggregate. In other words, rather than trying to find the needle in the haystack, you own the haystack instead.

There are many benefits to index funds, notably broad diversification and the low-cost nature of index funds. Most importantly, when you invest in an index fund, to a large extent, you take out the potential errors of human judgement. No longer do you have to scrutinise income statements or balance sheets, nor do you have to analyse the competitive advantages of companies to determine which companies will do well over time. Index funds take out much of the hard work and provide an investor with satisfactory returns over time. Over the last 100 years, the S&P 500 (a stock market index that tracks the stocks of 500 large-cap U.S. companies) has returned an annualised average of 9.8% (or about 7% after inflation). This all sounds great, doesn't it! However, these great benefits do come at a cost, and this cost will only matter to a few investors. What is this cost you might ask? I'll tell you – it's assured mediocrity.

Now don't get me wrong, the investment advice I most frequently give out is simply to put money into an index fund consistently over time. And for most people, indexing is the best way to ensure their fair share of stock market returns over time. If you're happy achieving an average 9.8% return each year for doing next to nothing (who wouldn't be!), then you can honestly stop reading this article. You have no need for the rest of this article, and I wish you well in your investment endeavours. However, if you're the type of person who has a desire to outperform market averages, a person with the commitment and the know-how to commit time to analyse and value companies. You have no need for index funds, in fact, they make little sense for you.

Well, since the would-be indexers are no longer reading this article and given that you're still here, I think it's safe to assume you're an individual who has a desire to outperform the market averages. While the widespread diversification of index funds prevents you from underperforming the market, it also prevents you from outperforming the market. The reason for this is because you own the market itself, you therefore will always do average. But what if instead of buying the market itself, you focused your efforts into finding and buying stocks that were undervalued. Outperforming the market is simple in theory, but hard in practice. To outperform the market, you simply value stocks which you are capable of valuing, and then compare this value you've derived with the current market price of the stock. The next step is to determine which stocks sell at the biggest discount from their true value, buy these stocks, and hold them until the market corrects this discrepancy. Such a method seems so simple, but to consistently do this is incredibly difficult. Which is why diversification, the act of spreading your capital among many different stocks, seems so appealing. After all, doesn't it make sense to minimise your chances of being wrong? Well yes, and no. When you minimise your chances of being wrong, you also minimise the rewards of your correct decisions. Therefore, the more you diversify, the higher chance you have of achieving the market average.

Diversification is one of the investor's main protections against ignorance. The less you know about valuing stocks, the more you diversify. This means if you know nothing about how to value businesses, then owning an index fund makes perfect sense. But if you do know how to value businesses, then why should you subject yourself to mediocre returns? The great fortunes in the investment world were not built on the back of a diversified stock portfolio, they were built by individuals who focused their efforts into finding a few good ideas. Instead of putting your eggs in many baskets, here's a better strategy for you. Learn how to determine what is a good basket, put your eggs in the best few, and watch those baskets carefully.

MYOB's column

BEYOND TOMORROW

In partnership with NZ Herald, MYOB addresses the questions at the top of business owners' minds in these uncertain times through a new video series.

The first episode in the series looks at the myriad of issues concerning cashflow management with MYOB's Country Manager Ingrid Cronin-Knight and Richard Abel, Business adviser and Chair of the Accountants and Tax Agents Institute of NZ (ATAINZ).

As the economy slows and customers stay home, new pressures are emerging for many of us. Getting a handle on your business financial position has never been more critical. The first step to achieving this is to have visibility of your cashflow in real-time as this will help you understand well in advance what the impact will be for you.

[Watch Episode One here]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