

## THE GOOD EQUITY SHARES TO LEAVE TO YOUR CHILDREN

by **Barri** and **Gadda 40**

### The equity shares to hold on to

One dollar invested in 1900 in Wall Street is today worth more than 1,500, net of over a century of inflation Google, Coca Cola, Novartis, Total, Lvmh, Recordati or Reply? How to choose stocks over the next few decades

by **Pieremillo Gadda**

All savers are long-term stock holders. Or rather, they should behave as such when they invest in the stock market, carefully choosing which stocks to buy, possibly from among those that can provide a constant revenue flow, and then forgetting all about them for a while. Being fully aware of the fact that trading, i.e. buying and selling stock on the stock exchange trying to exploit short to very short-term changes, can be very dangerous for those who are inexperienced.

But how should you select stocks destined to be locked away in a drawer? And what is the proper time horizon to consider? The answers to these questions, which *L'Economia* has formulated with the help of two experts, offer the coordinates for avoiding risky manoeuvres. "It is essential to focus on financially solid companies which boast solid competitive positioning, Companies which are leaders in their field, operating in sectors with evident entry barriers and led by a capable management team, and better still if such management is sensitive to issues, such as social responsibility and the environment". This is how Angelo Meda, Head of Equities at **Banor sim**, outlines the identikit of companies which should be of interest to long-term stock holders. The issue of dividends is not negligible: "The ideal situation would be to find bonds with coupons that can be detached regularly. A appealing dividend yield might fluctuate between 3-4%.

However, the point is not so much the absolute value of the dividend yield, but its sustainability over time", explained Paolo Rizzo,

partner at Anthilia sgr. Indeed, for the long term in particular, the steady income for the shareholder generated by detachable coupons can make the difference. Just think of the so-called "dividend aristocrats", American stocks that can deliver coupons which constantly increase in value for at least 25 consecutive years, stocks that have achieved a total yield (capital appreciation plus dividends) of 16.3% per annum over the last 10 years, one and a half percentage points per annum more than the S&P 500, once a performance champion.

### The selection

Among the 10 names chosen as examples by the experts for *L'Economia*, the contribution of the bond coupon under total return is in some cases surprising. For a luxury giant like Lvmh, it is worth almost 200 percentage points over a decade. It is 130% for Givaudan, a Swiss company producing fragrances and perfumes. A little less (125%) for Unilever, the Dutch multinational (see table). "In general, it is better to select from the less cyclical sectors because, when the economy is performing well, bonds in these sectors perform very well, but they easily slip downwards when there is a slowdown", observed Rizzo. Luxury products, cosmetics—for example, L'Oreal, explained the portfolio manager from Anthilia—household products and perfumes are the natural sectors where to look. Even the pharmaceutical champions, "like Novartis", said Rizzo. Or Glaxo, quoted by Meda, together with Kraft, next to an evergreen like Coca Cola.

"Even Google could very well be admitted into this portfolio, together with Total", explained the **Banor** portfolio manager. The bet is that the two big names, which have a relatively more cyclical profile, are able to sail through without much difficulty, overcoming temporary phases of weakness. Calibrating the time horizon correctly is, in any case, key: "It must be at least three or four years. The longer the better", noted Rizzo.

### Further away

After all, it is precisely over the long term that investment in equity has rendered the most gratifying results. This is recalled with data at hand through research conducted by Credit Suisse. One dollar invested in American equities in 1900 had its value multiplied exponentially up to 1,521 dollars, net of inflation, registering a real annual yield of 6.4%. The same greenback invested in bonds would have only increased its value tenfold in 118 years. An extreme example, given the large window of time, which nevertheless conveys an unequivocal message. However, one must also take into account the market conditions at the time of purchase. Securities with solid fundamentals are naturally the most popular in times of uncertainty, when even those investing in equities look for some protection. And therefore they risk being an overcrowded area. "Prices are certainly not cheap", reports Rizzo, convinced that a correction in the order of 5 to 10% would be healthy. "It would create an opportunity for entry at more advantageous conditions". According to the head of equities at **Banor sim**, on the other hand, "It is

still possible to find securities for the long-term stock holder, with a price to profit ratio between 20 and 30, that are not exorbitantly expensive, considering the current level of interest rates". In order to guarantee an adequate level of diversification however, he suggests that it would be necessary to have a basket of at least 10 different securities. "But not more than 30", he specified. "Academic research has shown that, beyond this threshold, the contribution in terms of further diversification of the risk vanishes".

© ALL RIGHTS RESERVED

## 5 rules

### for choosing securities for the long term

1

#### Look at the fundamentals

Choose financially solid companies, that are leaders in sectors where competition is limited, with managers that have proven experience

2

#### Dividends

Prioritise securities that deliver a steady and sustainable income stream.

3% or 4% is an attractive dividend yield

3

#### Sectors

Focus on household and personal care products, pharmaceuticals, luxury goods and food & beverage. On the other hand, it is better to avoid cyclical sectors

4

#### Diversification

A portfolio of long-term securities must include at least 10 different equity securities but not more than 30.

Beyond this threshold, the benefits of diversification diminish

5

#### Long term

The minimum time horizon must be three or four years.

In the long term, equity securities offer more gratifying results, net of inflation

### The long-term performance of blue-chip stocks ...

The returns, including dividends, of a basket of securities from the main listing of Piazza Affari

FTSE MIB 40

total return 10 years

40.3%

Data as of 17 July 2019

Company	Current price	Capitalisation (millions of euro)	% total return 10 years*	Analysts' Recommendation		
				Buy	Hold	Sell
Recordati	39.3	8,219	1118.5%	60%	40%	
Amplifon	21.3	4,813	825.8%	29%	64%	7%
Fiat Chrysler	12.6	24,632	645.3%	43%	47%	10%
Banca Generali	26.6	3,108	624.4%	56%	33%	11%
DiaSorin	103.0	5,763	587.2%	25%	67%	8%
Exor	63.6	15,328	585.4%	78%	22%	
Davide Campari	8.7	10,083	558.1%	15%	54%	31%
Juventus FC	1.6	1,596	356.5%	50%	50%	
Azimut Holding	17.7	2,584	352.4%	36%	50%	14%
Terna	5.8	11,582	316.1%	18%	64%	18%

### ... and of smaller bonds with a high potential

The returns, including coupons, of a basket of stocks in the STAR segment

FTSE STAR

total return 10 years

361.5%

Company	Current price	Capitalisation (millions of euro)	% total return 10 years*	Analysts' Recommendation		
				Buy	Hold	Sell
Reply	60.5	2,262	1819.9%	43%	57%	
Interpump Group	26.5	2,890	934.1%	44%	56%	
BB Biotech	59.7	3,309	916.3%	29%	71%	
TXT e-solutions	8.3	108	856.3%	50%	50%	
Amplifon	21.3	4,813	825.8%	29%	64%	7%
I.M.A.	70.2	2,754	787.3%	56%	44%	
El.En.	18.3	354	771.3%	33%	67%	
B&C Speakers	12.0	132	768.5%	100%		
Cembre	20.3	345	647.5%	100%		
La Doria	8.9	276	552.7%	50%	50%	

\*Cumulative return (including the reinvestment of dividends) in the last 10 years

### History lessons

What a dollar invested in 1900 is worth in 2018, net of inflation



Source: Credit Suisse

Azioni <b>6,4%</b> all'anno	Shares <b>6.4%</b> per annum
Liquidità <b>0,8%</b> all'anno	Cash <b>0.8%</b> per annum
Bond <b>1,9%</b> all'anno	Bonds <b>1.9%</b> per annum

Stocks 1,521 dollars

Bonds 9.90 dollars

Cash 2.60 dollars

### Around the world

A selection of European and American securities with accumulated earnings, including dividends, in the medium and long terms, with data updated as of 17 July 2019

Company	Sector	Listed in	Price	Currency	P/E at 12 months	Return			Return plus dividends		
						2019	5 years	10 years	2019	5 years	10 years
Lvmh	Luxury goods	Paris	382.70	Euro	26.3	49.2%	195.0%	663.5%	49.9%	226.6%	838.2%
Givaudan	Chemical	Zurich	2,766.00	Swiss Franc	31.1	21.5%	86.3%	314.1%	24.5%	113.9%	445.0%
L'Oreal	Cosmetics/personal care	Paris	251.60	Euro	32.3	25.1%	99.9%	311.9%	27.0%	118.2%	396.4%
Unilever	Cosmetics/personal care	Amsterdam	54.11	Euro	21.6	14.2%	66.6%	213.4%	16.0%	95.1%	338.9%
Novartis	Pharmaceutical	Zurich	89.67	Swiss Franc	18.1	20.7%	27.2%	106.2%	24.6%	50.3%	194.8%
Coca Cola	Food & Beverage	New York	52.11	Dollar	24.8	9.9%	23.8%	104.3%	11.7%	45.7%	178.1%
Glaxo	Pharmaceutical	London	1,660.60	Sterling	14.8	11.4%	7.2%	37.2%	14.4%	42.2%	133.0%
Total	Oil & Gas	Paris	48.59	Euro	10.5	5.2%	-2.3%	26.6%	7.9%	28.1%	121.3%
Google	Internet	New York	1,149.44	Dollar	20.0	10.9%	100.7%	94.6%	10.9%	100.7%	94.1%
Kraft	Food & Beverage	New York	30.41	Dollar	10.9	-29.4%	-58.3%	-60.9%	-27.5%	-51.7%	-50.6%