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Imagine if today you could buy your neighbour's house for the price it was valued at 16 years ago? Few investors would hesitate. Yet despite the fact the value of New Zealand GDP has increased by more than half since 1994, the New Zealand share market trades at the same price level as it did in 1993 and some 50% below the level it reached in 2007 (see graph).

MARKET CAP OF NEW ZEALAND SHARES HAS GONE NOWHERE



Source: Bloomberg.

Just because the market is cheaper than it was in the past is not, of course, on its own a reason to buy stocks. There are any number of reasons why it may be trading at a lower price than it has achieved in the past. A significant or dramatic change in economic conditions may have changed investors' earnings estimates. Investors' willingness to pay for expected earnings may have changed. However, all else aside, it is extraordinary that the primary expression of the strength of the New Zealand private sector is worth the same now as it was 16 years ago while the overall economy has grown reasonably strongly in that period. While this performance has been disappointing for many investors, and indeed has resulted in many becoming disillusioned with investing in local shares altogether, it strongly suggests that a major opportunity for significant capital gains exists today.

There's another, better, way of looking at returns to sharemarket investors than simply looking at market capitalisation and that is to look at investors "gross" returns i.e. returns including dividends paid out. The chart below shows the performance of the NZX50 index, a measure that includes dividends. While the market cap of

the NZX has been static for nearly 20 years, the returns to investors including dividends have been far more impressive, growing at an annualised rate of 6.1%. (see chart).

RETURNS INCLUDING DIVIDENDS HAVE BEEN FAR MORE IMPRESSIVE



Source: Bloomberg.

Some argue there is a link between high dividends and low capital growth. I will leave that discussion for another time, but what cannot be argued is that the dividend streams paid out to investors are real and have provided the vast majority of investors returns over the last decade and a half. And this yield is not a purely historical phenomenon. Currently, the top 20 dividend yielding shares in the NZSE offer an imputed average dividend yield of 8.8% - making it one of the highest dividend paying sharemarkets in the world. Additionally, most share investors need not pay tax on either their capital gains or dividend income.

So where does that leave us? We have a market that has been flat in terms of price for many years but has provided a steady return when dividends are taken into account. For investors who are currently on the sidelines it looks about as close to a win / win suggestion as you get in the investment world. If the market rises in price investors benefit, but if it doesn't, and dividends are maintained, it still offers an excellent yield.

(1) The New Zealand All Ordinaries Index, a capitalisation-weighted index of all shares listed on the NZX. The most commonly quoted index, the NZX50, is a 'gross' index, that includes reinvested dividends.

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