

## Buy shares, property to beat inflation, says adviser

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Deflation-wary investing may backfire, warns fund manager

Investors should consider buying into shares and property again to help protect them against inflation, according to one fund manager.

NZ Funds chief investment officer Michael Lang, who oversees \$1 billion in assets, said that since the global financial crisis hit in 2007 Kiwis had been more concerned about deflation – where investment markets and house prices fall in value.

"As a result investors have shied away from investing in assets which grow with inflation and have preferred the safe haven [of] bank deposits, government bonds and corporate bonds."

But in recent months American investors had begun to move back into property and equities amid fears that efforts to prevent a prolonged recession would instead spark inflation when the global economy recovered and Lang believed New Zealand investors should consider doing the same.

"If US investors are worried about inflation, it should also be a concern for New Zealand investors."

Lang said rising inflation meant the value of the returns on fixed-rate securities such as bank deposits and bonds could be eroded. Studies showed those who were the main winners in an inflationary environment were young middle-income households with fixed-rate-mortgage debt.

The losers were high-income households with no debt and investors who were trying to prepare for retirement through saving in bank deposits and fixed interest investments.

Lang warned investors to be selective in picking the right investments.

"Over time equities remain a good way to generate inflation-beating returns but ... pick the right stocks."

Lang said companies with low debt levels were able to pass on rising costs to consumers and were better able to ensure their earnings kept pace with inflation.

"Companies that typically do well in an inflationary environment are those that are linked to commodities," he said.

Property investments funded with a mortgage were also more likely to give returns better than inflation but he said it was important to be selective in the property investment.