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Investors advised to take long-term view

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Mighty River Power has been one of the single biggest equity catalysts on the Kiwi market in decades, with the partial float of the state-owned electricity company attracting mum-and-dad investors in droves.

And while the talk over whether it was a good investment before it listed was persistent, the hubbub has grown to a roar as the shares have slipped below their par listing value.

At last look they were trading at about $2.22, about 12 per cent below their pre-IPO listing price of $2.50. It's enough to make any newcomer to the market feel a bit panicky, especially for what is regarded as a solid cash-generating company that's low risk.

In a bid to cut through some of the panic, an accredited financial adviser, a stockbroker and a fund manager shared some of their experience and insight into equity investments.

Shane Solly, a portfolio manager at Mint Asset Management, says looking at price movements can be misleading unless you take a holistic view of why they are taking place.

Share prices, he says, are a reflection of what the market thinks a company's assets and future profits are worth at any one moment. But they also reflect the mood of the market at any one time, and investors need to factor that in when looking at price movements.

For example, while MRP has fallen just over 12 per cent in the past six weeks, the overall share market has fallen by 4 per cent, so in reality the decline is probably closer to 8 per cent. In addition, he says, investors need to be realistic about the kinds of earnings they expect from particular stocks.

Shares in accounting software company Xero have increased by 140 per cent to $16 over the past year, but then the company is in high risk expansion mode and has yet to make a profit.

MRP, meanwhile, expects to deliver a profit of $95 million for the 2013 financial year.

"You don't buy a house and expect the value to jump up the next day or week. It's the same with shares - you're investing in a business," Solly says.

Grant Williamson, a director at brokerage Hamilton Hindin Greene, says it is important for shareholders to remember that six weeks is too short a period in which to judge a newly listed company.

Shares often take a while - even years - before they bed down into stable trading patterns.

Ryman Healthcare, the current darling of the stock market, struggled in its first three years as a listed company before its solid returns started catching the eye of investors. Now it is regarded as one of the must-have blue chip stocks on the market.

"Experienced investors that have been in the market for quite a while - the been-there-done-that types - wouldn't panic [about MRP]," says Williamson.

"For those inexperienced investors, I would be asking them why are you selling out and crystallising your losses?"

Alan Borthwick, the principal financial adviser at Dux Financial Services, believes it is important to remember the reason why investors bought the shares in the first place.

"If you think this is a viable company to buy shares in, then your position shouldn't change unless there is a fundamental shift in the state of the company."

He adds that investors who are putting their money in equities for the long haul have the ability to look through short-term fluctuations.

"If I have a 10-year window and they go down 10 per cent over a month, then it hardly matters."

All three concede their tips barely scratch the surface of sound investment advice, which is why they recommend investors consult a professional.

"It's worth spending some money and talking to a financial planner," Solly says.

"New Zealand is a very do-it-yourself kind of environment, but these people take a holistic view of your assets."

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