PRUDENTIAL **INSIGHTS**

PRUDENTIAL
INVESTMENT MANAGERS

Prudential Investment Managers
OCTOBER 2020

Asset classes explained: A closer look at equities

One of the main reasons why so many people shy away from investing is that they struggle to understand how it all works. Fortunately, this is something can be easily overcome with a little bit of time, patience and of course… having the right teacher. Over the next week we will introduce you to the basics of investing by unpacking four of the main asset classes that fund managers like Prudential use to produce returns for investors. In Part 1 of this series, we take a closer look at arguably the most well-known asset class of them all - equities.

What are equities?

Equities (also called stocks or shares) refer to a share of ownership in a particular company. Fund managers generally buy shares in companies listed on a stock market, which means that those companies are publicly owned (by shareholders) and their share prices are published daily. Having a company's share priced daily in the market is important, not only from a transparency and ease of trading perspective, but also because most of the value of an equity investment is derived from changes in the share price (i.e. buying low and selling high).

What drives share prices?

Share prices tend to move up or down on a daily basis depending on the demand for a particular share. Demand is influenced by investor sentiment, which can sometimes be swayed by news headlines and events happening in other parts of the world. At Prudential, however, we do our best to avoid the daily noise and focus more on the fundamentals of a company, such as its future earnings potential.

What are the benefits of investing in equities?

Equities have historically produced the highest returns for investors over time, typically rewarding those who remain invested over the long term (usually seven years and longer). In addition to the capital growth which arises when the share price increases beyond that of the investor's purchase price, companies may pay dividends to shareholders, which represent a portion of the company's profits. Dividends are generally paid every six months and can provide a steady income for investors.

How risky are equities?

Given that share prices are subject to large movements on a daily basis, equities are considered the most risky of all the asset classes. Big movements in share prices are often referred to as "volatility". The higher the volatility of a stock, or any other asset, the higher the risk but also the higher the potential for large gains.

How do equity unit trusts behave?

Unit trusts that invest only in equities are regarded as being higher risk than those that invest in other asset classes, but they also have the highest potential for return. Over the short term, their prices can move up or down quite dramatically, but these fluctuations tend to "smooth out" over time. It is for this reason that the longer you stay invested in equities, the less risky they become since the chance of losing money is reduced, while the potential for greater returns is increased.

What does this mean for investors?

Equity investors need to have a long-term investment horizon of about seven years or more to fully benefit from their equity holdings. They should be willing to ride out the short-term ups and downs of the equity markets, be brave and patient during extended periods of underperformance, and trust their chosen fund manager.

At Prudential, we offer investors two equity unit trusts to choose from: the Prudential Equity Fund and the Prudential Dividend Maximiser Fund, both of which are ranked in the top 25% of their peer group in terms of performance over 10 and 15 years (as at the end of August 2020). To find out how much your investment would have been worth today if you started investing in one of our top-performing funds sooner, try our Past Performance calculator. And if you're ready to start investing with us now, you can complete an application form online in under 10 minutes.

For more information please contact your financial adviser. Alternatively, feel free to call our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.