AUSTRALIA'S FUTURE
OLDER, HOTTER, RICHER

WEDDING GUESTS
DODGE THE COST BOMB

MID-LIFE HOME LOANS
WHAT YOU NEED TO DO

CREATING FINANCIAL FREEDOM

Money

OCTOBER 2023 AUS $8.95 NZ $9.95 ISSUE 271
www.moneymag.com.au @MoneyMagAUS

LOVE YOUR SUPER
PAGE 64

INSIDE
HOW DATA LAWS WILL PROTECT YOUR PRIVACY

STRUGGLING LANDLORDS FORCED TO SELL

X FACTOR

Inside the $7 trillion generation

PAM WALKLEY
TIPS FOR SHAREHOLDERS IF THE CEO JUMPS SHIP

MAX RIAZ
HOW TO FUTURE-PROOF YOUR SHARES PORTFOLIO

SUSAN HELY
WHO'S MOST AT RISK WHEN FRAUDSTERS STRIKE

Want growth? Here's where to find it

Dividends alone don't cut it if you want your portfolio to power ahead over the next decades

A critical aspect of portfolio management is generating growth. While dividends play an important role in investing, this discussion is about something different: pure, unadulterated growth.

It's about the kind of growth that transforms a $100,000 investment today into a substantially larger sum through double-digit compound growth over the next two decades.

Allocating a portion of one's portfolio to growth is a fundamental principle that every investor should consider. This principle goes beyond avoiding missed opportunities for significant long-term wealth creation.

While dividends have their merits, concentrating solely on them could lead investors to overlook the potential benefits of capital appreciation. By not incorporating growth-oriented stocks and funds, they might inadvertently limit the potential for a well-rounded and potentially higher performing portfolio.

The extent of allocation to growth, however, is influenced by factors such as the investor's risk appetite and how long they plan to hold their investments.

A successful investor isn't merely content with having a growth allocation; they understand precisely how they're harnessing growth in their portfolio. This understanding goes beyond surface-level comprehension – it delves into grasping the driving forces behind growth themes and identifying the stocks and funds that hook into those themes.

Forget the quick riches

The term growth investing, however, sometimes falls victim to misinterpretation. It can be co-opted by newcomers to the investment scene who are drawn to the allure of quick riches. These individuals often display speculative tendencies and inevitably suffer losses. They most often get permanently purged by the market. Unfortunately, this tarnishes the reputation of the otherwise sound strategy of growth investing.

For us, growth investing is based on thorough and rigorous research. It entails gaining deep insights into companies with a proven track record of significant revenue and earnings growth. These companies offer products and services in a global market supported by genuine intellectual property. It's within these companies, characterised by sustained revenue and earnings growth, where investment riches can be found.

If you look at the growth trajectory of the Australian sharemarket over the past two decades, a clear pattern emerges, revealing the significant contributions of specific sectors. A closer look at the performance of various sectors unveils a story of divergent paths, with some sectors experiencing exponential growth and others progressing at a more moderate pace.

Future high performers

Notably, the standout sectors that have driven a substantial portion of this growth are healthcare (800%) and technology (600%), while consumer staples (300%) and banks (150%) have demonstrated relatively slower gains. Our growth figures are derived from a basic division of current sector indices by their levels two decades ago. These are just rough numbers to make a general point.

We expect the pattern of the past two decades to continue for the next two decades for healthcare and technology. We also expect resources (mainly the renewable energy metals) to be the third entrant to the high-performing pack of ultra-growth sectors.

In healthcare, we recommend seeking out companies with core intellectual property (IP) and global reach. Names such as CSL (ASX: CSL), ResMed (RMD) and Cochlear (COH) come to mind. These stocks cater to a global market with growing and ageing populations facing increased chronic conditions that necessitate lifelong reliance on medical devices and therapies.

The compound earnings growth rates of these healthcare stocks over the past seven years are significant and consistent), with the exception of the disruptive year due to Covid in 2020. Earnings growth rates are even higher when measured over longer timeframes.

3 FUNDS TO WATCH

Talaria Global Equity Fund (AUS0035AU)

Aims to provide superior risk-adjusted returns over the medium to long term through a global equity portfolio of 15-45 shares. Managed by a seasoned team, the fund uses a unique investment process and rigorous methodology to ensure consistent returns, even during market volatility. It has an overweight tilt to healthcare.

Betashares Nasdaq 100 ETF (ASX: NDQ)

The NASDAQ-100 comprises 100 of the largest non-financial companies listed on the NASDAQ market and includes many companies that are at the forefront of the new economy. The fund has 50% exposure to technology stocks.

Global X Green Metal Miners ETF (ASX: GMTL)

Diversified exposure to the materials sector with strategic allocations to green metals such as lithium, copper, nickel and cobalt.

A consistent observation is the high growth rates underpinned by robust global sales and distribution networks, with products and therapies protected by core intellectual property.

A warning, though: being categorised as a healthcare stock is not a sufficient prefix for future earnings and share price growth. Consider Ramsay Health Care, which is a healthcare stock but doesn't really have a core IP with global scale.

It's built on undifferentiated private hospital operations (albeit complex) that prospered in the past due to the founder's adeptness in establishing a network of private hospitals near tertiary public hospitals. This strategic proximity resulted in benefits such as a robust referral network, collaboration opportunities, seamless patient care, specialised services and access to advanced resources.

The growth potential is restricted, however, by the finite demand for local hospital services. Unlike CSL, ResMed and Cochlear, these assets lack a global scale. Consequently, Ramsay Health Care's earnings per share have not been consistent over the past seven years, showing -13%pa earnings growth. Correspondingly, its share price reflects the same underperformance.

We can mount the same argument for a range of technology sector stocks such as WiseTech and Megaport.

In the resources sector, we anticipate heightened demand for metals due to the net-zero transition in the coming decade. According to a McKinsey analysis in July, metals with the most significant blue bars indicate the highest expected surge in demand, specifically lithium, rare earths, cobalt, copper and aluminium.

In addition to the abundant materials stocks listed on the ASX, growth stocks within the healthcare and technology sectors are more readily accessible in the US and Europe, and emerging markets such as India.

Max Riaz is an investment manager and director at Banyantree Investment Group, with responsibilities across equity and multi-asset strategies. See banyantreeinvestmentgroup.com.