



LET'S TALK ABOUT...

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Stock "coupons"

When investment yields are discussed in general terms, they mostly refer to fixed income instruments: they wrongly consider the amount of the periodical coupon or, more correctly, such value however weighted according to the price of purchase or the current quote of the instrument. But we may see that today's scenario of money market (short term) and bond investments is dominated by very low rates – and consequently even lower yields – at least for high-quality and reliable issuers. We have already noted that during the past years the concept of risk itself has been upset: corporates have often proven safer than sovereign bonds, issues from emerging markets less troubled than the stars of developed areas. In such environment equity investment, the "risk" capital par excellence, also historically subject to high volatility, seems to be all in all more attractive than bonds, usually the traditional option of careful households, aiming at no problems and surprised. What the reason of such comments ? Indeed in times of meagre coupons and even lower monetary and bond yields, also considering the expensive price of safer public and corporate instruments, a good alternative may be a selection of shares: good and solid companies of non-critical sectors, which pay rich and regular dividends. Normally equity investors are more lured by capital gains than dividend yields. However, if choosing well, shares may be found with more than notable "coupons", much higher than bond equivalents, even double or more. Moreover a high dividend yield (that is the cash dividend divided by the stock price), all the more if regular or increasing over time, is the best sign of the company's good financial condition, and makes the stock more defensive during a market correction. The investor may then benefit from cash flows and superior capital gain if compared with the market average. - *GLT*

The views expressed are not necessarily those of the Swiss Association of Asset Managers
