



### Capital Appreciation

The main driver of long-term equity returns is capital (or price) appreciation. Capital appreciation results from growth in cash flows, revenues, and/or earnings.

### Diversification

Equity securities offer diversification benefits due to less than perfect (i.e., less than +1.0) correlation with other asset classes

## Role of investing in Equities

### Dividend Income

Cashflows not reinvested in the business are often distributed as dividends to the shareholders. Typical annual dividend yields range from 1% to 3%

### Inflation Hedge

A company that can charge its customers more when input costs increase (due to inflation), can provide an inflation hedge by increasing its cash flow and earnings as prices increase. However, equities and inflation become negatively correlated in periods of hyperinflation