
Don't Lose Sight of Blue Chip Benefits

An article in the *Australian Financial Review* last week suggested Australian super-fund investors are [losing faith in blue chips](#).

“In the biggest change in investment intentions since the global financial crisis, 55 per cent of do-it-yourself scheme trustees said they intended to invest in blue chips over the next 12 months, down from 65 per cent who had that intention a year ago.”

And it's not just retail investors. One of the country's largest and oldest listed investment companies, AFIC, is [switching from blue chips to mid-cap growth stocks](#).

That is not surprising. Last financial year, the biggest 20 stocks under-performed the wider market by the [largest margin](#) since 1989. If you owned the market-capitalisation weighted index, your return for the 2016 financial year was close to zero. An index that owned one share in every stock in the ASX 300 would have returned almost 10%.

Investors, professional and DIY alike, have a tendency to base their decision making on the rear view mirror. In case you need a reminder of how that tends to work out, refer back to my article [International Ship has Already Sailed](#) from July last year and then take a look at the returns from international funds in the subsequent 12 months (mostly negative).

Is the same mistake being made today? Are people deserting blue chip stocks at the worst possible time?

Probably. Lots of small and mid-cap stocks are starting to look relatively expensive. And people are certainly forgetting one of the key benefits of owning these big defensive companies. When the economy hits the skids, these stocks are the safe haven to which everyone flocks. When unemployment is rising and discretionary spending gets slashed, people keep buying groceries and keep paying their phone bills.

That is easy to forget after 23 years without a recession. And it's easy to feel like you are missing out when small cap investors are posting double digit returns. But these stocks are called staples for a reason, and there will come a day when investors appreciate it.