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How retail rates as an investment

Investor and author Robert Allen once asked: "How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."

Right now, most investors aren't looking to become overnight millionaires – more likely just to get a return higher than 1% or 2% from a savings account.

This is one reason why the City is so focused on dividend yield, the company's dividend as a percentage of its market capitalisation – the equity equivalent of an interest rate. It currently averages 3.5%. So an investor holding a diversified portfolio should get dividends significantly higher than from savings. In principle, this is because the equity investor takes the risk that shares may go down in value, whereas savings should be safe in a bank (although perhaps not in Cyprus).

The ultimate measure of equity returns is total shareholder return (TSR), which adds movements in share prices to dividends paid. Over the past three years, the FTSE 100 TSR has averaged 3.9% growth per annum, although the FTSE 250 fared better with 8.3%.

Incidentally, these numbers are not distorted by the financial crash in 2008. The FTSE 100 TSR fell by 28% in that year, but bounced straight back in 2009 with a rise of 27%. Sluggish growth since largely reflects the resulting general recession.

How does retail rate as an investment? There is no simple answer, because individual retailer performance is so variable. Stock picking is the key to getting returns in retail.

Carphone Warehouse has delivered for its shareholders in recent years

"WITH PRESSURE TO DELIVER RETURNS THROUGH DIVIDENDS, CASHFLOW IS BECOMING EVEN MORE IMPORTANT"

The larger general retailers have delivered a surprisingly strong average growth of 10.3% per annum TSR since 2010, led by shareholder-pleasing performances from Carphone Warehouse (32% per annum), Next (28%), and WHSmith (22%). At the other end, Home Retail Group lost its shareholders 14% and Halfords 6%.

Investors have actually been better off in general retail than in food. The three biggest listed food retailers have delivered a disappointing 2% average TSR, led by Sainsbury's (4% per annum growth), but pulled down by Morrisons and Tesco (2% and 4% declines respectively).

Who would, I wonder, guess the leading performer in retail? Step forward Booker, with a tremendous 38% per annum TSR growth over the past three years.

With more pressure to deliver returns through dividends, cashflow is becoming even more important. Strategies to invest large amounts now to get future growth are no longer popular in the City.

Reining back capital expenditure to deliver increased dividends is very much the order of the day, as exemplified by Tesco recently. It's fortunate that the growth of online is making building new stores less of a priority.

TSR growth doesn't tell you whether a business is a good or bad one. It simply tells you that investors' perceptions of dividends and future earnings have improved.

However, it's clear that the millionaire investor in retail has to be either very smart or very lucky and to pick the right moment.