Fungible Asset Classes

Shares in a publically listed firm are all the same, so we say that the shares are fungible. Fungible assets all have the same price and they are interchangeable.

Shares, bonds, bills and standardised derivatives like options and futures are all fungible asset classes.

For example, BHP's common shares are fungible. An investor does not care which BHP share he owns since each BHP share will receive the same dividends, have the same voting rights, and in the event of insolvency will receive an equal residual value of the firm's assets once all debts are paid.

Fungible assets tend to

- be exchange-traded since they are a standardised product.
- be more liquid, which means that they are easier to sell in terms of cost and time required.
- have a more certain (or at least easily observed) price since they trade frequently.

Non-fungible Asset Classes

Individual assets are unique if they belong to a non-fungible asset class. No two assets are the same and therefore trade at different prices.

Property such as real estate is not fungible. Each piece of land is different in terms of location, size, government zoning, access, view, noise levels, aspect, rainfall, smell, and so on and each will have a different price.

Loans are not fungible since each has a different borrower, face value, coupon rate, price, yield, seniority, collateral, maturity, and so on.

Non-fungible assets tend to be:

- Traded Over-The-Counter (OTC), which means that buyers and sellers negotiate literally over a counter at a bank, or more likely by phone, email or in person at an auction;
- Less liquid in terms of cost and time. For example, selling a house is usually done through a real estate agent who takes around 3% of the sale price and might take a few months to sell;
- Cheaper and have higher required returns since they are less liquid compared to an equivalent fungible exchange-traded asset. You will notice that small private companies sometimes sell at price-to-earnings ratios (PE ratios) as

low as 2, compared to listed stocks’ 15. However, this comparison ignores their different risks.