

INTERNATIONAL SHARES | Investors looking to head overseas need to watch the Aussie dollar

# Testing out deeper waters

WANT a share in software giant Microsoft, or multinational food company, Nestle? **MEREDITH BOOTH** finds out how ordinary Australians can get a slice of the action.

INVESTORS looking beyond Australian shores for companies on other stock exchanges are finding an increasing variety of products, from managed funds to exchange traded funds or ETFs, and listed investment vehicles specialised in international markets.

With Australia's share market representing just 2 per cent of global markets, many Australian investors have a strong desire to diversify.

A suite of new funds listed on the Australian Securities Exchange this year by London-based bank Barclays Global Investors' ishares has allowed more direct exposure to international markets than before for individual investors.

A share in the fund seeks to replicate rather than outperform an index – such as the U.S. Standard & Poors 500 on Wall Street – by holding a weighted basket of shares in that index.

With Asian, European, U.S. and emerging markets already listed in ishare funds, Barclays hopes to list up to 35 funds in a wider range of economic regions and asset classes by the end of 2008.

Ishares co-head Tim Bradbury said ETFs had grown in popularity in the U.S. since they were introduced in 1993, giving individuals access to a range of commodities, as well as different industries such as technology, which were previously available only to professionals.

Ishares' management fees ranged between 0.09 per cent to 0.75 per cent lower than actively-managed funds' fees and were slightly cheaper than already listed international share funds.

U.S.-based researcher Morningstar put the average management expenses and fees of active funds at 1.55 per cent, with index funds in small capitalised stocks at 0.83 per cent.

While there was yet to be a direct competitor in Australia to the Barclays funds, there are other ASX-listed funds which had been offering similar international investments.

Magellan Flagship Fund, for example, which launched in December 2006, has pitched itself as a value investor aimed at



long-term growth. It charges a quarterly management fee of slightly more than 0.31 per cent.

The funds' top investments were weighted in the U.S. market and include American Express, eBay, Yum Brands and Nestle, but made a loss last financial year as the Australian dollar gained strength against the U.S. dollar.

Its shares have traded at a discount to the fund's assets and generally have underperformed against the overall market.

Also trading at a discount to net tangible assets, rival listed fund Platinum Capital, which has been operating since 1994, blamed its poor result last financial year on incorrect weighting of its investments.

The company said the "disappointing"

result last financial year was from its investments in Japanese companies, which weighed down its profit because of a weak year on Japan's Nikkei.

Brokers say this can be a downside to managed funds and ETFs focused on emerging markets.

Prescott Securities chief economist Darryl Gobbett said many ETFs and listed investment funds traded at a discount to their assets during healthy growth in markets.

"Where the markets are pretty strong people tend to go for the direct stocks," he said.

Risks were also associated with emerging economies.

Each country has its own financial structure and economic issues, which impact

upon the profitability of local companies. An economic crisis in one country may be a benefit for another country, so in such circumstances their sharemarkets are likely to react to such events in different ways.

Ishares' Mr Bradbury said ETFs, traded funds or listed funds were flexible because prices were transparent and shares could be traded throughout the day, compared with managed fund units which had prices calculated and changed once a day.

He expected financial planners and other intermediaries to be first to take up ishares, alongside professional investors.

Ord Minnett research says currency movements added to the risk of buying into ETFs – a stronger Australian dollar against the U.S. currency would double the effect of a

fall in the U.S. dollar. The research says international ETFs paid lower incomes than dividends offered on most Australian shares – the average dividend yield in the U.S. was about 1.83 per cent, compared with Australia's 3.75 per cent.

Other risks included less timely and accurate information on the prospects of foreign markets compared with Australian shares and higher risks associated with greater volatility in emerging markets where countries may be reforming their economies.

Mr Gobbett said investing in ETFs was cheaper and more transparent than other international share and actively managed funds.

While listing costs in Australia may have prevented more financiers from listing prod-

## WHERE YOU CAN BUY...

UNITED STATES

- S&P 500
- S&P midcap 400
- S&P smallcap 600
- Russell 2000

ASIA

Morgan Stanley Capital International (MSCI indices) in:

- Japan
- Singapore
- Hong Kong
- Taiwan
- South Korea

■ FTSE/Xinhua China 25

OTHERS

- MSCI Europe, Australasia, and Far East
- MSCI Emerging Markets

FUTURE PRODUCTS

- Investment sectors – healthcare, telcos, technology or consumer goods
- Property
- BRIC markets (Brazil, India and China)

ucts like ishares on the ASX, he expected other companies to watch the take up of ishares before entering the market.

"My view is you will see a lot more of these and a lot more variety," he said.

The variety could extend across a range of industries such as banks, resources, and telecommunications, but also across different international markets.

Mr Gobbett recommended Prescott's clients held between 15 and 20 per cent of their portfolios in international shares, and to expect capital growth rather than income from these investments.

While most investors chose managed funds, an increasing number were looking at listed investment companies, he said.

However investors needed to remember some basic rules before investing in international shares.

Income was generally lower than those dividends earned from Australian companies.

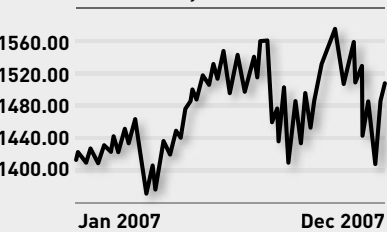
Australia's small part of the global sharemarkets means investors get better exposure to sectors which are not represented well here.

For example, the information technology and health care industries are considerably larger in the U.S. and Europe.

Lastly, the unhedged nature of many funds means a strengthening Australian dollar will cut into gains made in other markets.

## US MARKETS S&P 500 INDEX

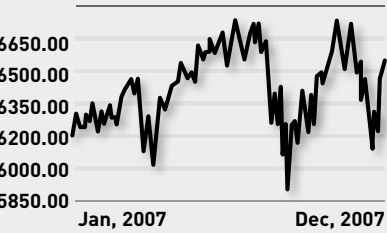
Friday's close at 1504.66



Concerns over fallout from the U.S. sub-prime mortgage sector weighed heavily on the S&P 500 index in the U.S. in August, stifling gains to 4 per cent ahead of January levels.

## UK FTSE 100 INDEX

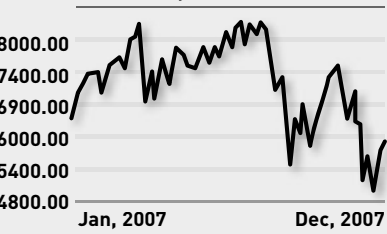
Friday's close at 6554.9



London's FTSE tracked Wall Street and was trading at a 2 per cent premium to its January value.

## JAPAN NIKKEI 225

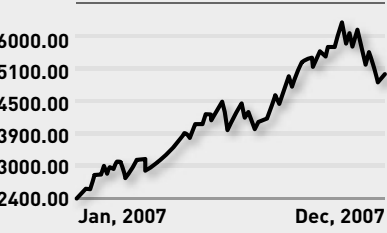
Friday's close at 15956.37



Worries about Japan's economy caused the Nikkei to fall in value since January, with the combined value of Japanese listed companies now trading 9 per cent lower than last year.

## SHANGHAI COMPOSITE

Friday's close at 5091.756



International share market indices have had mixed performances since January with China's Shanghai composite a stand-out performer, rising 80 per cent in value in the past 12 months.

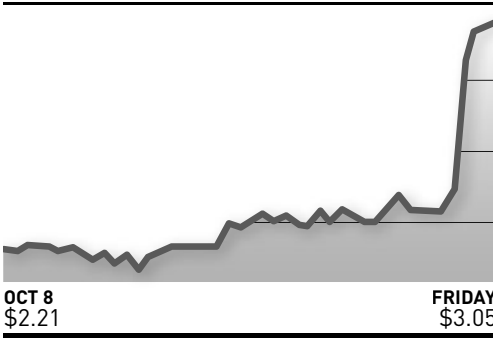
## fastlane

AMONG the top gainers last week was coal producer Resource Pacific which climbed 29.8 per cent to close at \$3.05 on Friday.

The unsolicited \$959 million takeover bid from Swiss mining giant Xstrata was the reason for the cheer.

Aquila Resources shareholders also gave a thumbs up to the \$US45 million sale of its 25.5 per cent interest in Belvedere Coal Joint

## RESOURCE PACIFIC



Venture. Shares in the miner rose 28.7 per cent to end at \$9.87.

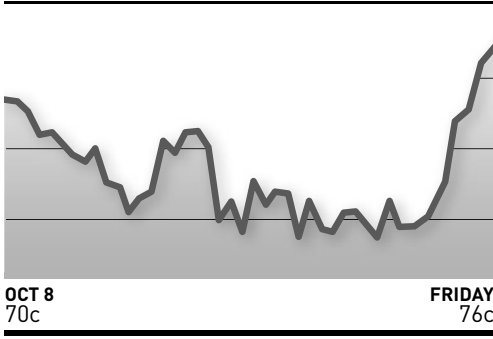
Queensland-based gold explorer Kings Minerals was last week's mysterious gainer. Shares jumped 22.6 per cent for no apparent reason to close the week at 76c.

However, rival gold miner Kingsgate Consolidated was not so lucky.

It lost 19.4 per cent share value to end at \$3.95 on Friday.

The company lost heavily after it asked for

## KINGS MINERALS



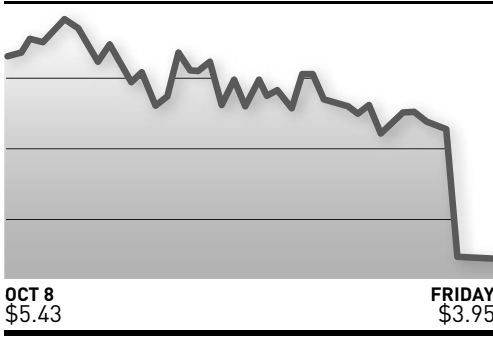
a trade suspension following media reports that the Thai government had suspended applications for gold exploration and production licences.

Pharmaceutical distributor Genepharm also joined the losers this week, with shares falling 15.4 per cent to close at 33c.

Meanwhile, port congestion in Queensland and NSW, heavy equipment shortage and strong competition were likely to affect Boom Logistics's first half profit.

The announcement - which predicted first half profit to be between \$17 million and \$18 million - led to shares ending 14.4 per cent lower at \$1.85.

## KINGSGATE CONSOLIDATED



## Super trove

THE Australian arm of financial services giant Aviva says it has matched more than \$1.7 million in lost superannuation money to its Navigator Business Super members.

Aviva Australia general manager of marketing and public relations Tim Cobb said they offered the free service so they could keep "better track of their investments".

"(It also) saves them paying multiple sets of fees to multiple providers and enables their money to work harder for them," Mr Cobb said. "Our proactive stance has reaped rewards with hundreds of fund members receiving lost super amounting to an average of \$2000."

## Recycling debt pays loans fast

LAWRENCE Orlando says borrowing to invest in blue-chip Australian shares is his preferred method of investing.

This has enabled him to use a "debt-recycling strategy" to pay off his home loan faster and create long-term wealth.

"The great Australian dream of owning your own home but taking 25 to 30 years to pay it off does not gel with me, so by using the available equity in my home I devised a simple yet effective debt recycling strategy," said the Bourke Shaw Financial Services principal.

"With the average South Australian loan hovering around the \$260,000 mark, and interest rates

## adviser spotlight



increasing, there is no benefit in having a property valued at \$500,000 with available equity just sitting there not working for you."

Mr Orlando warned there were risks associated with borrowing to invest and his strategy might not be suited to everybody.

"As an aggressive investor, my investment horizon is seven years-plus, so this type of strategy would be ideally suited to an investor with a high risk tolerance and a similar investment horizon," he said.

"The particular fund we use for our debt-recycling strategies posted compound returns of 18.6 per cent for one year, 15.4 per cent for five years and 10.6 per cent for the 10 years to August 31.

"We cannot predict exactly how any Australian share fund will grow in the long term, as it is based on market conditions over which we have no control."

## Assess options before rejecting term deposits

WHILE some investors might consider keeping a cash allocation within their portfolio as a wasted growth opportunity, this asset class can offer a range of options to increase your wealth.

With an array of different products available for you to choose from, keeping cash does not mean simply placing the money in a standard bank account. There are ways to generate much greater returns.

Term deposits are one investment vehicle that provide both guaranteed growth and security for a cash allocation. They



lynton SALLIS  
TERM DEPOSITS

work on the principle that you place your cash within a banking institution for a fixed amount of time - called the term - and during that time the cash generates an agreed amount of interest.

It is usually the case that you can choose the length of the term you want to lock your money away for and this is

generally reflected in changes to the rate.

For example, a new term deposit offered by Macquarie Private Wealth provides investors with a limited opportunity to access a rate of 7.7 per cent over a 12 month term. This can provide a considerable increase on your initial investment and you can choose to begin a new term, once your first has reached maturity.

In addition, while the funds are generating returns within the term deposit, they are insulated from external influences.

For example, if local and glo-

bal markets experience movement or the RBA drops interest rates, the amount of interest your cash within a term deposit receives remains at the same fixed rate.

Security is also a key consideration. To check the security of a term deposit, research houses such as Standard & Poor provide ratings that can help guide you.

It is also important to note that trying to access your funds before the agreed term is not advisable, because this will incur a "break fee".

Depending on the provider,

this can mean you lose all of the interest your investment has gained.

However, Macquarie Private Wealth offers all of your initial investment and a large percentage of the interest you have accumulated back, if you access your cash within the final third of the term.

As with any financial decision, you may wish to speak with your financial adviser first to discuss which option suits your own personal circumstances.

Lynton Sallis is division director for Macquarie Private Wealth Adelaide.

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