Herald Sun

Greater access means it's time to get out and see world

TERMS OF TRADE
with CARL CAPOLINGUA

THE Australian share market comprises approximately 2 per cent of the value of global equities.

Equity market transactions account for roughly one-third of daily capital flows in financial securities around the globe.

The rest is made up of predominantly foreign exchange, bonds and other credit instruments, and commodities.

So, if you are only looking at Australian shares, you are only looking at a tiny snippet.

The evolution of CFDs in the local financial services industry has allowed both novice and professional traders alike unprecedented access to world markets.

Most CFD providers allow clients to transact in domestic and overseas equities, foreign exchange, bonds and commodities all from the same trading account and in the base currency of their choice.

Most importantly, they can do this by themselves — without the aid of a broker — in the comfort of their own home.

It should be noted though that CFDs are typically used by shorter term traders rather than longer term investors and that they are leveraged instruments.

This means that you could lose more than your initial outlay. So while CFDs offer great access to world markets, they are not for everyone. This doesn't mean that longer term, mum and dad style investors can't venture outside of the Aussie share market.

An exchange traded fund, or ETF is a financial product traded on an exchange (like the ASX) that gives shareholders exposure to a group of related assets.

Investors buy and sell shares in an ETF exactly as they would other listed shares.

An ETF is not a company like BHP Billiton however, it doesn't run a bricks and mortar business.

Rather, it invests in certain assets and returns any income from those assets to shareholders. An ETF is therefore priced like any other share on the market in the sense that greater expected returns will typically translate into a higher share price and dividends.

For this the ETF will generally levy a small management fee.

Recently, there has been an explosion of ETFs on practically all stock exchanges around the world, including our own ASX.

Today you'll find ETFs that give investors exposure to stock indices such as the S&P ASX 200, or the S&P500 in the US, currencies like the Australian dollar, commodities like gold and oil, and bonds.

Even better, there are usually long and short-based ETFs for these assets allowing investors to take advantage of both rising and falling markets.

The access everyday investors now have to international securities and asset classes is unprecedented. It wasn't that long ago that you either had to have a specialist adviser or fund manager.

These days it's just as easy to buy shares in Google or Microsoft as to buy shares in Telstra or ANZ.

ETFs allow you to quickly and cheaply get both diversification and exposure.

It is for this reason that when we designed our Elite Traders Club, we felt it essential to cover as many different markets as possible.

This diversifies our market risk, that is, the risk of a systemic decline in one market, and provides us with a smorgasbord of potential trading opportunities.

At the moment we have little exposure to the Australian share market and none at all to the mining and energy sectors.

We have instead focused on consumer discretionary, healthcare and high yielding real estate trusts and utility stocks in the US.

The outperformance of these securities over the local market has been significant.

As we always say: If the Australian market is on the fritz — no worries — we can still find good trading opportunities somewhere else in the world!

Perhaps it's also time for you to get out there and see the world?

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