

Three exchange traded funds that could change your life

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Some ETFs can provide investors with a well-rounded basket of shares. **Photo: Luis Ascui**

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There has been much in the news about self-managed superannuation funds and their large exposures to; cash, property and Australian shares.

Based on APRA statistics, it is estimated that in total SMSFs hold around 78 per cent to cash, property and Australian shares and less than 1 per cent to international shares.

Jake Jodlowski, principal at Atchison Consultants, says that this imbalance in the allocation leads to a portfolio that is heavily skewed to the performance and growth of the Australian economy. For investors looking for diversification there is a simple, low maintenance entry point into international shares through investing in exchange traded funds (ETFs) that follow specific global market indices, similar to index managed funds. The benefit of such ETFs is that they can provide investors with a well-rounded basket of shares, tracking country and industry sectors and therefore exposure to companies listed on the stock exchanges of the world's major economies such as; US, Europe, UK, Japan.

As a starting point, Jake Jodlowski recommends, even with a small capital outlay, one ETF portfolio, a low cost ETF that closely replicates the investment performance, in aggregate, of the major share markets around the world. By way of example, two ETFs available to Australian investors that provide a broad exposure to major international share markets is the Vanguard MSCI Index International Shares ETF and the SPDR S&P World ex-Australia Fund. These two ETFs replicate differing indexes. Vanguard's specific index consists of some 1500 large and mid-cap companies, while the SPDR index comprises of about 450 listed companies. An investor could expect that the returns from these two ETFs will differ.

Further enhancement to diversification can be obtained through a low cost, low maintenance three ETF portfolio, equally weighted. A "three ETF portfolio" is designed to provide investors with additional diversification and potential for improved investment returns by including and tracking emerging market stock exchanges. By way of example, emerging markets can be accessed through Vanguard FTSE Emerging Markets Shares ETF or iShares MSCI Emerging Markets ETF. As illustrated, global diversification can efficiently be obtained by country, industry and company.

The "three ETF portfolio" also takes into consideration one of the risks associated with international investing, the impact of currency. The "three ETF portfolio" can to an extent mitigate and hedge the risk of fluctuating exchange rates by allocating between an unhedged and a hedged international shares ETF investing equally, such as in the Vanguard MSCI Index International Shares ETF and Vanguard MSCI Index International Shares (Hedged).

The depth and breadth of ETFs listed on the Australian Stock Exchange is growing coupled with the ability of brokers and platforms to access efficiently ETFs listed on US, UK, Japanese and European stock exchanges. Atchison Consultants is seeing more interest from sophisticated investors seeking tailored multi-ETF portfolios. These modelled portfolios are exclusively modelled with a number of ETFs investing across; regions, countries, asset classes and industries. Construction of models is based on macro and micro economic signals and is actively managed by Atchison Consultants with the objective of taking advantage of signals identified.

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