

Coronavirus > Hibernation

How to buy into the whole stock market with just one share

EFTs have been hailed by billionaire stocks guru Warren Buffett as the most sensible investment, providing exposure to an entire stock market without having to stress over picking winners or losers. And they're easier to buy into than you might think.

Anthony Keane

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 2 comments

Investing in share markets can be daunting, but rewarding if approached in the right manner

Investor interest in shares has spiked this year but many newcomers remain worried about the cost and complexity.

However, there's a fast-growing option that cuts through the confusion and allows people to effectively own all of a stock exchange's major companies with just one share.

Exchange traded funds, known widely as ETFs, have snowballed in size – increasing more than 30 per cent annually for three years.

The latest Australian Securities Exchange data shows the sector grew 31 per cent to \$64 billion in the 12 months to May, and there are now more than 200 ETFs listed on the ASX.

Each ETF share spreads an investor's money across all stocks in a market index, such as the ASX 200 or an overseas index. Their fees are much lower than traditional managed funds, and billionaire stocks guru Warren Buffett has described them as the most sensible investment for a majority of investors.



Monique and Marc Bullen use ETFs to invest for their children's future. Picture: Jay Town

Online investment service Six Park's co-CEO, Pat Garrett, said ETFs' popularity was growing as more investors understood the benefits of diversifying their money, and were drawn to the lower costs and the ability to easily buy and sell ETFs online.

"Most ETFs track an index, and thus are passive by design, versus active investing, which involves trying to pick winners and timing the market, both of which are very difficult, even for the experts," Mr Garrett said.

He said if current growth rates continued the size of our ETF market would almost double to \$110 billion by 2022.

Before diving in, investors should know what they are getting into, as some ETFs focus purely on shares, while others may track infrastructure, property, bonds or commodities. Some are riskier because they use borrowed money as well as investors' money.

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"When starting out, stick with ETFs from well-established issuers such as Blackrock, Vanguard, State Street, BetaShares and Van Eck," Mr Garrett said.

"When starting out, it's probably best to avoid fancy-sounding ETFs and stick with ETFs that track a known, transparent index and asset class. If there is anything about an ETF that you do not understand, stay away."

Marc and Monique Bullen use ETFs to invest for their four children's future.

Mr Bullen said they added to their ETFs regularly and put in extra payments where possible from things such as tax returns or work bonuses.

"I can see how it's tracking at the click of a button and I feel like I'm in control rather than just getting an annual summary in the mail," he said.

"It's easy to follow – you don't have to be a rocket scientist to follow it and track where your money is being invested."

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VanEck's head of Asia Pacific, Arian Neiron, said ETFs should continue their "strong growth trajectory" for another decade.

"Investors should research who is behind the ETF," he said.

"You want a reputable fund manager who has deep expertise and significant global experience in issuing ETFs.

"Investors should always align their investment objectives with the desired ETF and if in doubt, we implore investors to seek financial advice."

POPULAR ETF OPTIONS

ETF code Asset Class Issuer

STW Australian shares (ASX 200) State Street

VGS International shares Vanguard

VGE Emerging markets shares Vanguard

DJRE Global listed property State Street

IFRA Global listed infrastructure Van Eck

IAF Australian fixed income/bonds iShares (Blackrock)

AAA Cash yield BetaShares

Source: Six Park

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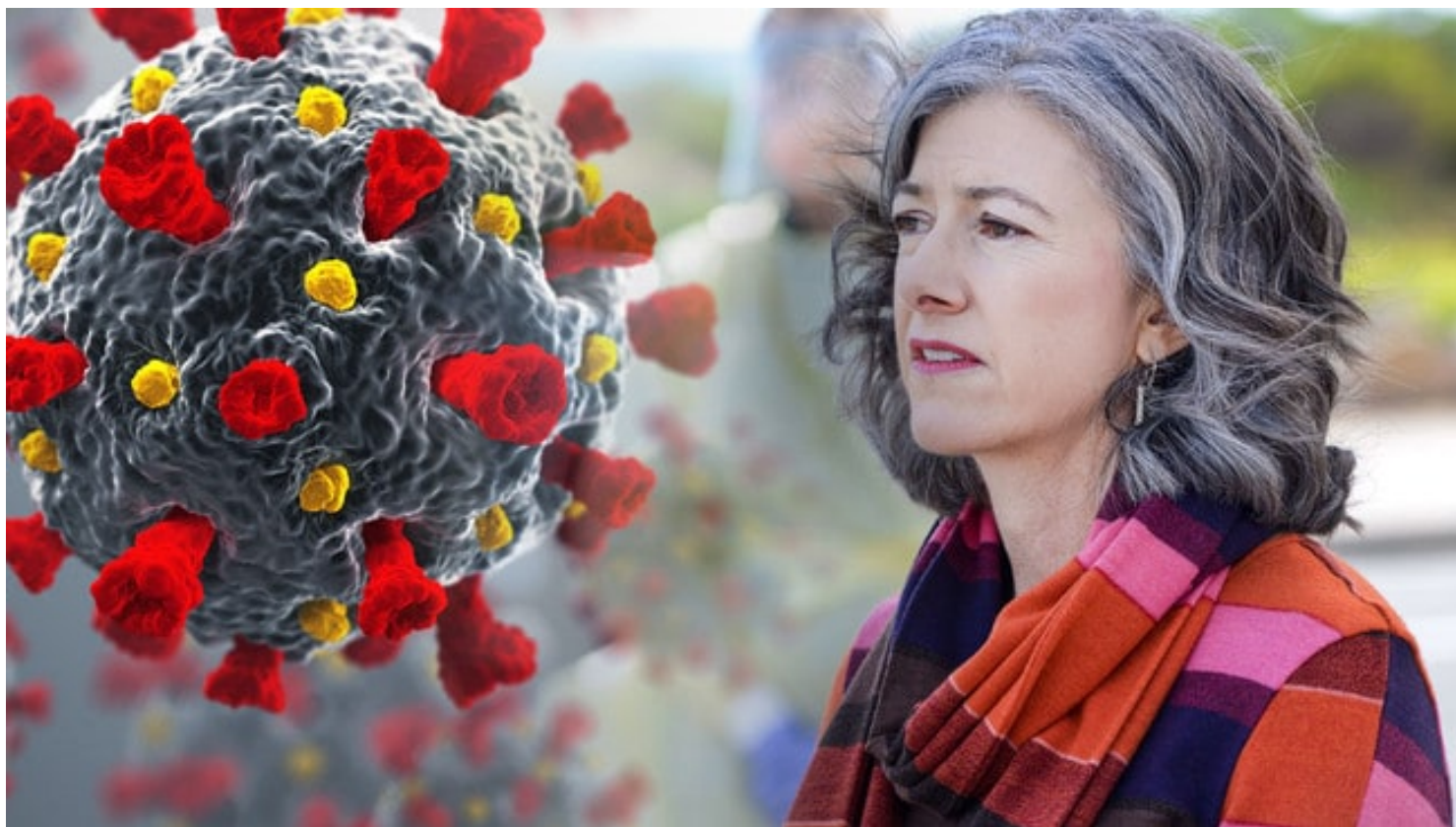
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