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MarketWatch at Wed 29th Jun 4:04pm AEST

Markets Closed Markets Open

## Happy campers of exchange-traded funds ride a rising trend

- Andrew Main
- From: [The Australian](#)
- June 29, 2011 12:00AM

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**IT'S sometimes a bit hard to differentiate between the chicken and the egg when it comes to the proliferation of exchange-traded funds in Australia.**

Are they growing because of demand, or because there are more originators around?

Drew Corbett, head of Investment Strategy and Distribution at Canadian-based group BetaShares, shone some light on that one last week by noting that once ETF products become available, the take-up is pretty strong.

Her might say that, mightn't he, given that his group wants to widen the menu of ETFs available here, but he's riding a trend towards increased diversification and lower costs that has seen ETFs get to around 4 per cent of total capitalisation in Australia.

ETFs are still in the early stages here despite our otherwise having a mature and developed market.

Researcher Mark Johnston, principal of Investment Trends Pty Ltd, said that while there are about 53,500 investors active in ETFs in Australia since the start of this year, the number could grow to somewhere between 72,000 and 80,000 by the end of 2012. Even the most conservative projection is for about 62,000, he said.

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By way of comparison, there were about 9000 in mid-2005.

ETFs, which started out as plain-vanilla tradeable index funds in the US, now account for more than \$US1 trillion worth of investments in the US and their very scale is one of the reasons for the "flash crash" of May 6 last year.

The problem was that a lot of ETF orders are automatically generated and when the market is heading down as it was on that day, computers feed a whole raft of sell orders into the market.

The extra problem in the US was that while some of the major markets such as the New York Stock Exchange were able to put a bar on trading where the weight of

selling overwhelmed the number of buyers standing in the system, there are many other market operators in the US that were sought out by the ordering systems and which had the sell orders foisted on them.

The good news in Australia is that we've had nothing like that, and the Investment Trends survey unveiled last week noted that while in 2009, 73 per cent of ETF investors in Australia said they hadn't encountered a problem with the products, in 2010 that group of happy campers climbed to 91 per cent.

And who are they? The survey, which was of a big sample, found that 72 per cent of ETF investors in Australia had a self-managed superannuation fund.

Their average total investment in ETFs was \$53,000 and their average transaction size was \$44,000, the survey found.

Perhaps the most useful information in the survey was why investors buy ETFs in Australia. Diversification comes out on top at about 65 per cent, closely followed by low cost and then the avoidance of the risk that comes via individual stocks.

Liquidity and ease of selling used to come second overall but is now fourth, since liquidity is not the issue it once was.

And fifth comes the ability to access specific overseas markets.

Morningstar's ETF Monthly last week gave some good examples of popular ETFs in Australia, noting that while ETFS Physical silver fund had dropped by 18.73 per cent in line with bullion in early May, it was still up 65.12 per cent over the last year. ETFS has 12.4 per cent of Australia's ETF market, the newsletter noted. the biggie remains the first cab off the rank here, State Street Global Advisers, with a 54 per cent market share, followed by Blackrock's iShares with 21.745 per cent and ETFS with 12.46 per cent.

BetaShares is just getting started here but as the newsletter noted, it and Vanguard had the biggest increases in market share over the month of May thanks to recent product launches. BetaShares' gold bullion ETF attracted \$2 million in investment in its first month of trading while the same group's US dollar ETF saw its assets climb \$A16.85 million in the month.

The new products helped lift its share from 2.37 to 2.67 per cent of the market, which might help explain why BetaShares is being so outgoing with the press.

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