

# ETFs in a Nutshell

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Leaderex – September 2017



# Exchange Traded Funds (ETFs)

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- **What** is it? (hint: it's not an EFT)
- **How** do you use it in investments?
- **Which** ETFs should you choose?
- **Where** and **How** can you invest in ETFs?
- **Want** to know more? Visit [etfSA.co.za](http://etfSA.co.za)

# ETFs – what investing in it, is NOT

JS

- Get-rich-quick scheme
- Trading in individual shares
- Forex trading
- Going to provide you with an income (immediately)



# ETFs – what investing in it, IS

JSE

- Building up **wealth**
- Buying a **share** of the **SA economy**
- Getting part **ownership** of the **JSE**
- Best left alone for at least **3-5 years**



# ETFs – what is it?

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- A **package** deal
- A **box** of chocolates
- A **hamper** of goodies
- What is in the **hamper**?
  - Different **types** – Christmas, Valentine’s Day, Back-to-School
  - Every ETF has a ‘**theme**’, e.g. Resource companies, High dividend stocks, Inflation-linked bonds, Physical gold, etc.
  - Theme is defined by the **index** that the ETF follows / tracks



# ETFs – what is it?



Listed

(necessarily)

index-tracking

(usually)

unit trust

(sometimes)

- **Listed**: Securities listed and traded like normal shares on the stock exchange
- **Index-tracking**: Fund replicates the make up of the reference index
- **Collective Investment Scheme (CIS)**: also called a Unit Trust or Mutual Fund

# Saving vs. Investing

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- Saving
  - Money that you plan to **spend** at some future date
  - Key requirement is capital **preservation**
- Investing
  - Acquisition of **assets** that can **generate an income** in future
  - Key focus is on capital **growth**

# Savings in the bank

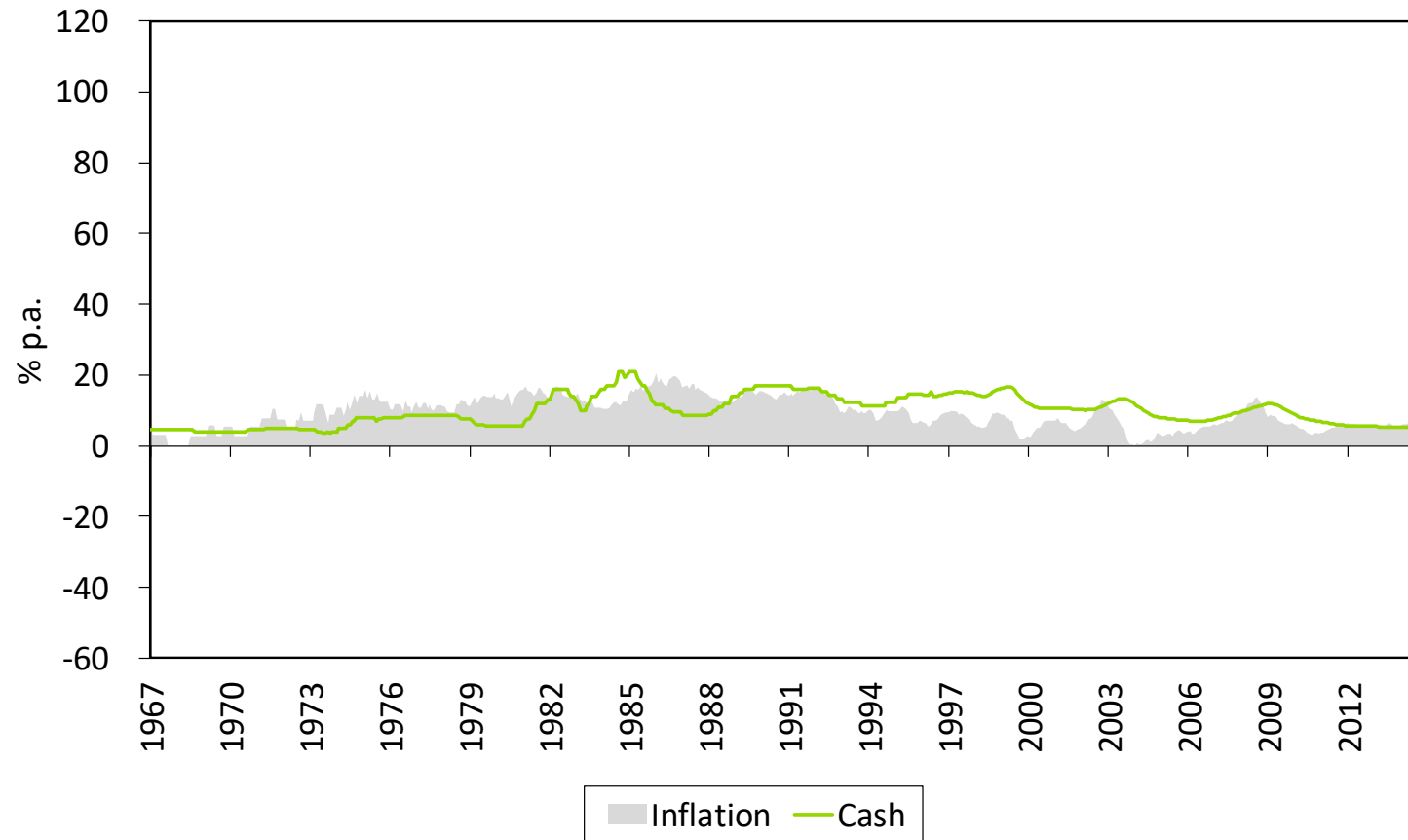
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- R100 in the bank
- 3% interest rate p.a.
- After one year you have R103
  
- Nothing more – Nothing less
  
- But inflation is >5%, so your money is now worth less...



# Savings in the bank



Source: JSE data; etfSA calculations

# Investment in the stock market

Buying **shares** in companies

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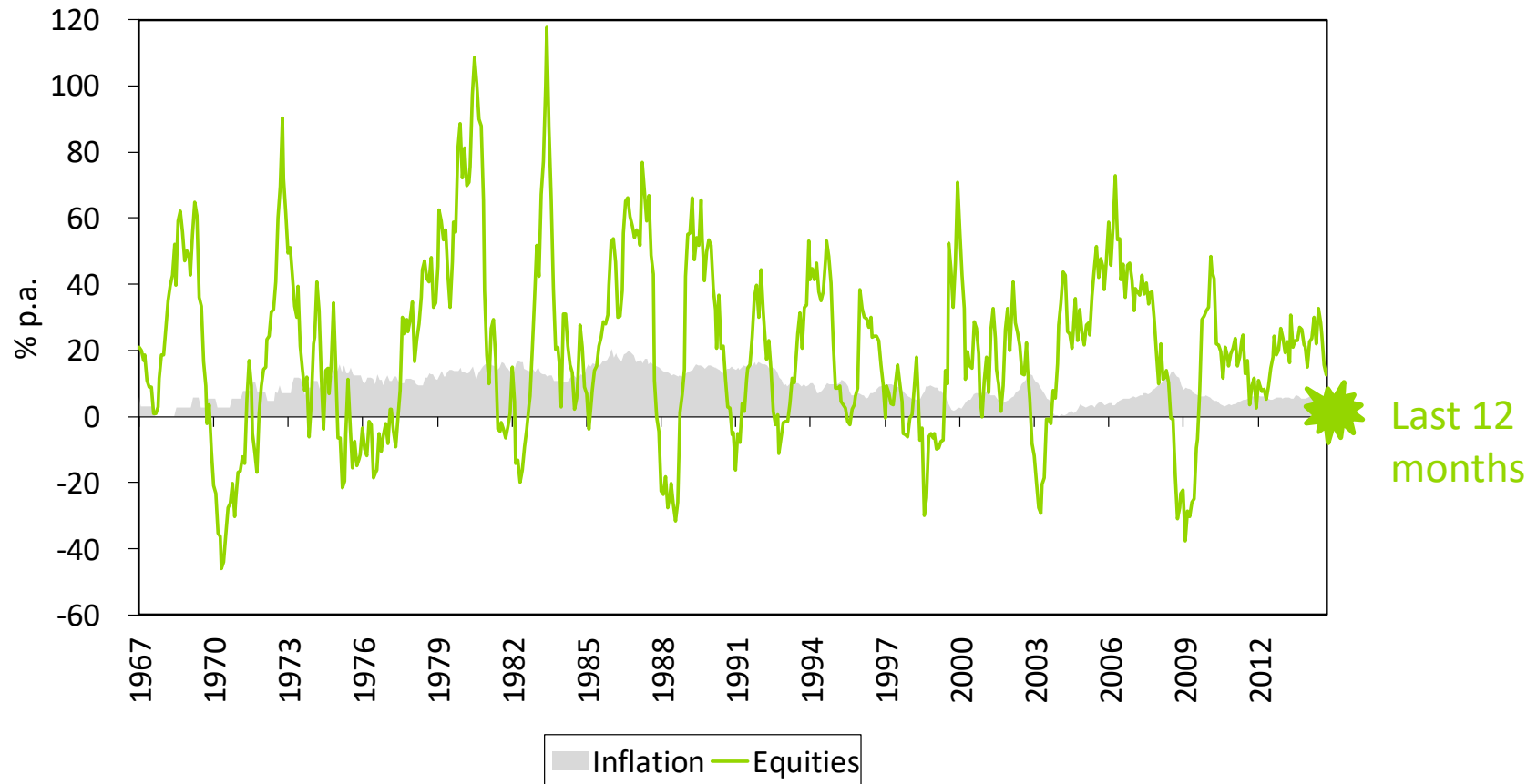


- **R100** in the stock exchange
- **20%** rate of return p.a. **on average\***
- After one year you have **R120 on average**
  
- **BUT**
  - In a bad year you could lose 20% → R80
  - In a good year you could get 35% → R135

\* Last 50 years

# Investment in the stock market

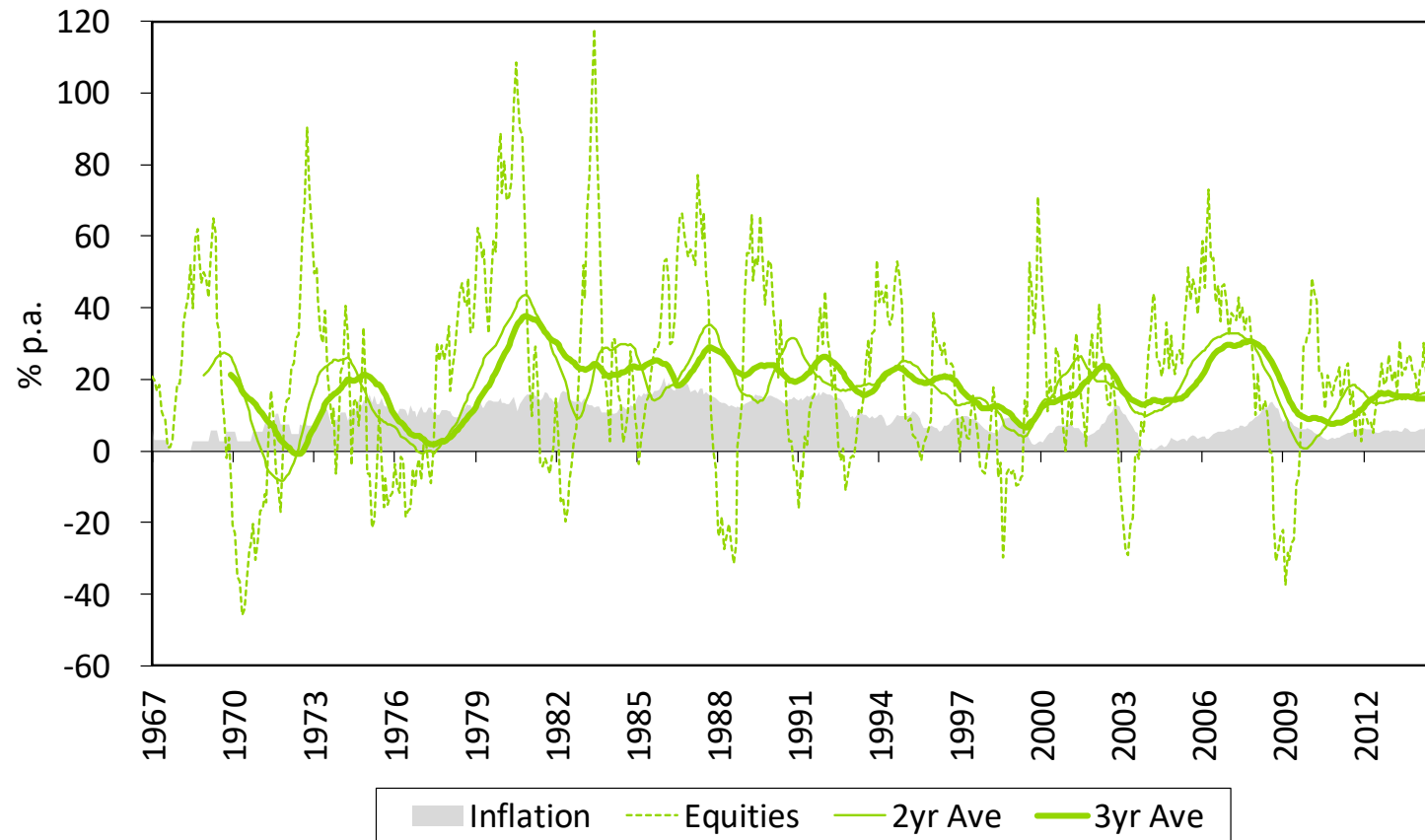
Buying **shares** in companies



Source: JSE data; etfSA calculations

# How do you deal with this variability?

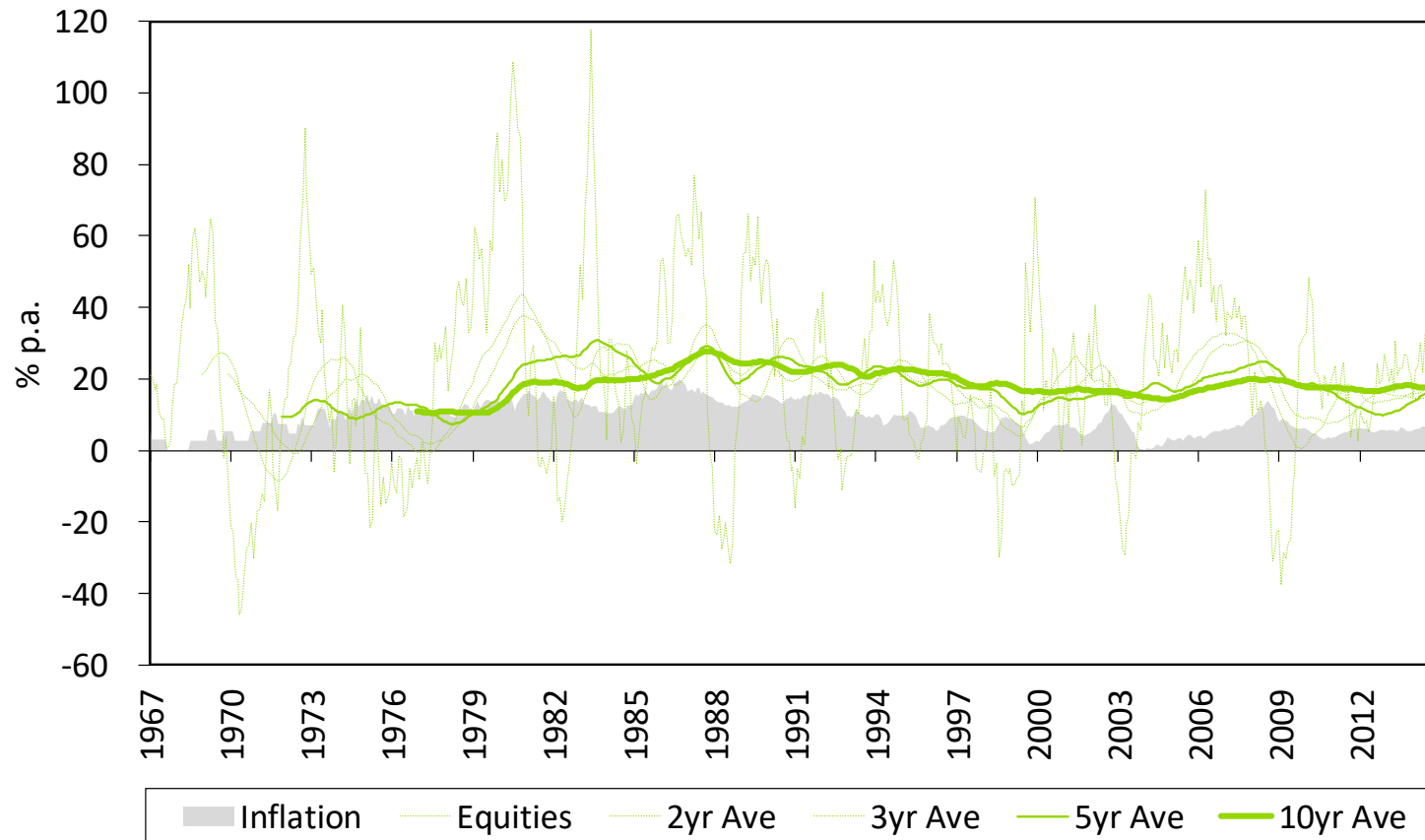
The power of “time in the market”



Source: JSE data; etfSA calculations

# How do you deal with this variability?

The power of “time in the market”



Source: JSE data; etfSA calculations

# How do you use ETFs in investments?

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- Open an **investment account**
- Buy **ETFs** in the account
  
- You can't open a **tax-free ETF**
- You open a **tax-free account**, and buy ETF(s) in it
  
- You can't open a **discretionary ETF**
- You open a **discretionary account**, and buy ETF(s) in it

# Tax Free Investment Account

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## Benefits

- No tax whatsoever – no capital gains tax, no dividend withholding tax, no interest tax
- No restriction on withdrawals – timing or amount

## Disadvantages

- Annual (R33,000) and lifetime (R500,000) contribution limits
- Restrictions on underlying investments, e.g. only ETFs/unit trusts without performance fees

## Who?

- Only individuals, SA residents (SA bank account)

# Discretionary Investment Account

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## Benefits

- No contribution limits
- No constraints on underlying investments

## Disadvantages

- No tax benefit on contribution
- No tax benefit on withdrawal

## Who?

- Anyone – individuals, investment clubs, stokvels, trusts, companies, third party investments, joint accounts, etc.



# Which ETF(s) should you choose?

Long term capital growth

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## Broad-based, large cap domestic equities

- FTSE/JSE **Top 40** Index
  - Satrix 40, Stanlib Top 40, Ashburton Top 40
- FTSE/JSE **SWIX 40** Index
  - Satrix SWIX 40, Stanlib SWIX 40, NewFunds SWIX 40
- S&P Capped SA **Top 50** Index
  - CoreShares Top 50
- Other
  - CoreShares **Equally Weighted** Top 40, Satrix **RAFI** 40, NewFunds S&P **GIVI** SA Top 50, NewFunds **Shariah** Top 40

# Which ETF(s) should you choose?

Sector, size rotation

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## Specific sector, size exposure

- Resources
  - Satrix RESI 10, NewFunds GIVI SA Resources
- Financials
  - Satrix FINI 15, NewFunds GIVI SA Financials
- Industrials
  - Satrix INDI 25, NewFunds GIVI SA Industrials
- Smaller size
  - Ashburton MidCap

# Which ETF(s) should you choose?

Alpha potential, Thematic exposure

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JS

## Factor / Strategy, Theme (“smart”)

- Dividend strategies
  - Satrix Divi+, CoreShares Dividend Aristocrats
- Reduced Volatility
  - CoreShares Low Volatility
- Momentum
  - NewFunds Equity Momentum
- High Quality
  - Satrix Quality\*
- BEE compliance
  - NewFunds New SA

\* Lists on 26-Sep-17

# Which ETF(s) should you choose?

High Yield (REIT dividend income)

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## Listed Property

- SA Listed Property, SA primary listing
  - CoreShares Proptrax SAPY, Stanlib Property
- SA Listed Property, SA primary listing, Equally Weighted
  - CoreShares Proptrax Ten
- SA Listed Property, primary listing anywhere
  - Satrix Property
- Global Property
  - CoreShares Global Property

# Which ETF(s) should you choose?

High Yield (interest income)

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## Fixed Interest / Bonds

- SA Government Bonds
  - NewFunds GOVI
- SA Inflation-linked Bonds
  - Ashburton Inflation-X, NewFunds ILBI, Satrix ILBI
- SA Cash
  - NewFunds TRACI 3m
- US Treasuries
  - Firststrand US Dollar Custodial Certificates\*
- SA Preference Shares
  - CoreShares PrefTrax

\* Non-CIS, so does not qualify for tax free accounts

# Which ETF(s) should you choose?

Rand-hedge, Global diversification

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## International Equities

- Global
  - DBX MSCI World\*, Satrix MSCI World
- Regional
  - Satrix MSCI Emerging Markets; Cloud Atlas Africa ex-SA Big 50
- Country
  - USA: DBX MSCI US\*, CoreShares S&P 500, Satrix S&P 500
  - UK: DBX FTSE 100\*
  - Europe: DBX EuroStoxx 50\*
  - Japan: DBX MSCI Japan\*

\* To be rebranded Itrix (Sygnia)

# Which ETF(s) should you choose?

Asset diversification

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## Multi-Asset Balanced Funds

- Higher risk (higher equity exposure)
  - NewFunds MAPPS Growth
- Lower risk (lower equity exposure)
  - NewFunds MAPPS Protect

# Which ETF(s) should you choose?

## Physical assets

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### Precious Metals\*

- **Gold**
  - ABSA NewGold, Standard Bank Africa Gold, Firstrand Krugerrand Custodial Certificates
- **Platinum**
  - ABSA NewPlatinum, Standard Bank Africa Platinum
- **Palladium**
  - ABSA NewPalladium, Standard Bank Africa Palladium
- **Rhodium**
  - Standard Bank Africa Rhodium

\* All non-CIS, so does not qualify for tax free accounts



# Where and How can you Invest in ETFs?

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- **Stockbroker** (preferably **low cost online** broker)
  - Standard Bank Online, Easy Equities, ABSA Stockbrokers, etc.
- **Investment plan with ETF provider**
  - SatrixNOW, CoreShares Online, ABSA Core Investment Account, Sygnia Alchemy, etc.
- **etfSA.co.za**
  - **All** JSE-listed Exchange Traded Products
  - Tax-free, Discretionary, Retirement Annuities, Living Annuities, ETF Managed Portfolio services

# Advantages of using the etfSA Investor Plan®

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- Lump sum investments from R1000
- Debit orders from R300 per month
- Automatically reinvests dividends (four times a year)
- Very low brokerage rate (0,08% +VAT)
- Sliding scale administration fee (0,35% - 0,65% p.a. +VAT)
- Facilitate third party investments
- Ideal for Investor Clubs / Stokvels
- Can view accounts online at any time
- Authorised to give advice (no additional fee)

[www.etfsa.co.za](http://www.etfsa.co.za)

# etfSA Contact Details



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