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Hear From the Investment Expert PRESENTED TO YOU BY SHAREINVESTOR

ETFs gain popularity in today's volatile times

Exchange traded funds, commonly known as ETFs, are gaining popularity among investors in Singapore. An investment fund listed and traded on the stock exchange, an ETF typically tracks an index, such as a stock, bond or commodity index, and aims to produce a return that reflects the performance of the index or underlying assets.

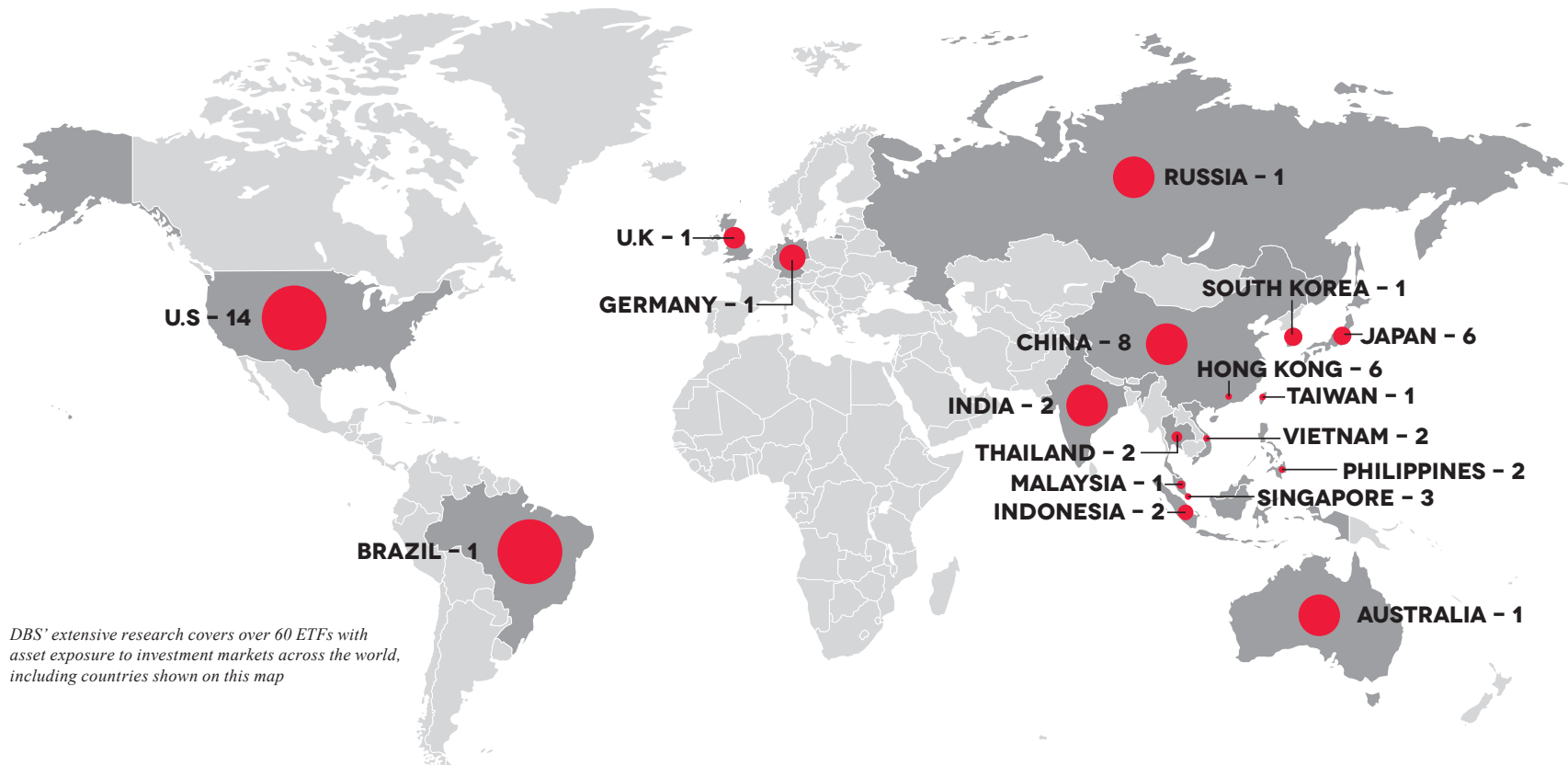
One of the most important financial innovations in the past two decades, an ETF is easy to trade and offers a cost efficient way to gain diversified exposure like a unit trust. It allows you to spread risks easily across various securities and markets. Investing in ETF means you no longer need to buy individual stocks or bond issues to build a similar portfolio as the index.

To ensure the ETF aligns with your investment objectives, it is important to fully understand what you own by evaluating the underlying index or strategy, and be aware of the curency exposure. How do you compare and select the right ETF that meets your needs? If all these sound mind boggling, choose a brokerage firm that can help you cut through the clutter.

DBS Vickers has a specialised in-house research team that provides house view and ratings. The team provides comprehensive coverage, including regular research reports, educational materials and workshops on over 60 ETFs listed in Singapore, the United States, Hong Kong and Japan. These ETFs are exposed to developed and emerging countries, new frontiers, as well as other asset classes like bonds, gold and oil. Besides access to research insights and trading services, enjoy convenient safekeeping of your ETFs when you trade with DBS Vickers.

DBS' regional equity strategist, Joanne Goh, shares her views on ETF investments and her top picks for 2015.

Comprehensive ETF Research Coverage



DBS' extensive research covers over 60 ETFs with asset exposure to investment markets across the world, including countries shown on this map

Q: Why should investors consider ETFs?

A: Buying an ETF is as simple as buying a listed stock. It is a cheap way to gain diversified exposure to reduce risks and volatility. Investors also pay significantly lower management fees as the expenses paid for managing an ETF is lower than an actively managed unit trust.

ETFs that track indices such as the Singapore Straits Times Index (STI) and S&P 500 allow you to invest in quality blue chip stocks, which will be otherwise expensive if you were to purchase the stocks individually. For example, an investor buying the Nikko AM Singapore STI ETF gains exposure to the Singapore market and is essentially investing in Singapore's 30 largest companies by market capitalisation.

Q: In November 2014, DBS Vickers recommended the China A-Shares ETF in its inaugural ETF strategy paper. The ETF has since risen 25%. Why were you bullish on China when the economy is slowing down?

A: We continue to be bullish on China. When a behemoth such as China is showing signs of economic slowdown, it is worth examining the underlying trends.

The market was trading cheaply at less than 10 times P/E in November 2014. This was against the backdrop of China's push for financial reforms, which aim to liberalise interest rates and the renminbi, and ultimately open up its capital markets. The sharp rise in China A-Shares ETF was catalysed by the launch of the Shanghai-Hong Kong Stock Connect program in November 2014, which allows cross border investments in these two markets. This had unlocked domestic liquidity and the value in the A-share market.

Q: What are DBS's top ETF picks for 2015?

A: We believe China will continue to do well in the first half of 2015. We also recommend ETFs that are exposed to Indonesia and Europe. The Indonesian market is benefitting from the recent reforms unveiled by President Jokowi. Investors should also watch the developments in Greece closely for a buying opportunity, especially after the large-scale quantitative easing and Euro's sharp depreciation. ETFs that are exposed to the oil sector may have potential upside because oil prices have hit a significant low, after sliding close to 50 per cent in the past six months.

Q: Would DBS recommend ETFs in developed countries or emerging markets?

A: In the current environment, we prefer developed markets. Apart from Europe, we have a positive view on the US due to the potential improvement in corporate earnings. The strengthening of US dollar from possible interest rate hikes in the second half of 2015 should boost returns for Singapore dollar based investors.

Due to the volatile markets, selective exposure to emerging Asia is recommended. China is a good market to consider. Investors can also look at treasury inflation-protected securities (TIPS), which provide protection against rising inflation. Do not write-off emerging markets because of common blanket reasons like fear of collateral damage, political risks, and a possible credit implosion in China. Investors who wrote off emerging markets completely would have missed the top performing ETFs in China and India last year.

Q: What percentage of an investor's portfolio should be in ETFs during such volatile times?

A: Equity index ETFs are diversified as opposed to single stocks. During such volatile times, investors with a long term investment plan should put as much in ETFs as possible.

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