

The economic waves that Britain once aspired to rule are lapping at the citadel – time to look over the water

# Going for international brokers

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**G**eorge Soros, the multi-billionaire speculator has little comfort for UK investors. ‘You have a housing bubble. Household debts are higher than in the US. The banking and financial industry is much bigger as a proportion of the economy in this country. You face higher prices for food and energy, and the budget allows little room for fiscal growth,’ he told the *Times* in May, predicting a UK economic decline.

Soros was promoting his latest book. The nation’s economists also joined the bear-fest after Bank of England governor Mervyn King warned the NICE decade (Non-Inflationary, Consistently Expansionary) was over. They rushed to respond by predicting that the next decade would be VILE (Volatile Inflation, Less Expansionary).

So is this really what faces investors in UK companies – a long, bleak period of subdued growth and lazy acronyms?

It is the likeliest scenario, requiring careful stock selection and a bottom-up approach, time also to look overseas.

‘The issue is not whether to invest outside the UK, but how much,’ says Alex Orban, vice president of E\*TRADE UK Retail. ‘By placing investments into a number of different countries and securities it helps smooth volatility by ensuring you have enough varied holdings to offset investments that could decline in value over time.’

## Looking abroad

Trading overseas by retail investors has soared. The growth of derivative instruments such as CFDs or holding key currencies in one account, is an added attraction. Private investors can now trade in real-time, on a level with local investors in other countries.

TD Waterhouse claims it has seen a year-on-year doubling of global trading volumes since 2005, and that non-UK trades now account for around 10% of its daily volumes. James Daly, from the broker’s investor centre, says: ‘Our international service allows customers to deal directly on 16 live exchanges and



hold cash and stock in four major currencies – sterling, dollars, euros and Canadian dollars. Much of our investor interest has targeted US markets, but cheaper broker costs and greater flexibility on trades has seen increased interest in other markets as more retail investors move online.’

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A survey in May 2008 by online global share specialist, Internaxx, revealed 74% of international investors believe they outperformed the UK market last year.

One draw for UK private investors is avoiding stamp duty, as most don’t charge the tax. It also allows investors to gain exposure to sectors not well represented on the LSE, such as commodity stocks, and to speculate on companies making global news.

‘An international outlook boosts growth prospects,’ says Robert Glaesener, managing director of Internaxx. ‘Our research shows that our clients’ interests in newly emerged markets, new listings and new products often

go hand-in-hand with consistent performance. International investors often prefer the more volatile Chinese market, where they discount any talk of a bubble, to the US market, where they see less long-term potential.’

But remember – currency markets have been very volatile, and are subject to adverse swings that can wipe out gains. Foreign exchange has also concerned investors in US stocks.

## Them and US

‘Any gains made in the US market by sterling investors have been eroded by the long term decline of the dollar,’ said Conrad Simmons, investment manager at Charles Stanley Stockbrokers. ‘With these factors in mind, I would recommend private investors buy a basket of international equities to diversify risk.’

US broker Charles Schwab specialises in US stocks, and is predictably still bullish. ‘Anybody not in the US should be,’ said director Kully Samra. ‘London is around \$5 trillion of the global market place, whereas New York is around \$15 trillion. The US is the first country to go into a recession, so is also likely to be the first out.’

‘The weaker dollar has put off some investors from buying US shares, but we believe that may be turning.’

Schwab's US-based chief investment strategist, Liz Ann Sonders, said in May: 'We've expressed our belief in the likelihood of a dollar rally and still believe conditions are setting up for further stabilisation. Despite the European Central Bank's May 8 decision to stand pat on interest rates, we see burgeoning pressures on global central banks to begin lowering rates (thereby narrowing the rate differential between them and us). But sentiment has reversed toward optimism, perhaps sending a contrarian signal that the rally may pause before resuming again.'

Charles Schwab also offers private investors access to over 2,000 companies in over 70 countries listed in the US as American depository receipts (ADRs), as well as US-listed exchange traded funds (ETFs) of non-US indices and companies.

Other brokers offer wider exposure to international markets, such as Charles Stanley. 'A good starting point for retail investors would be global equity funds, as these offer effective diversification and the fund managers have the ability to allocate money to areas they believe offer the best growth prospects', says investment manager Conrad Simmons. 'Both emerging and Asia Pacific markets have done well.'

Internaxx now offers clients online trading in Asian markets, including Singapore, Hong Kong and Australia. According to the Luxembourg-based broker, Asia and China have trumped the UK and the US in the mindset of overseas investors in recent years. Last year in its outlook for national economic

prospects over the next two years, it scored India and China 70%, 28% for the UK and 13% for the US (it says the UK has recently leaped to 45%).

### China bucks the trend

Since last summer, the global stock markets' correction has clipped more than \$3 trillion off stocks worldwide. But one high-profile market barely skipped a beat. Ken Sherman, director at E\*TRADE says: 'China's CSI 300 index of mainland stocks traded in Shanghai and Shenzhen continued to defy gravity. It surged past the 5000 mark in August to a new record high, up over 150% so far in 2007. Until recently, domestic exchanges were largely restricted to China's mainland investors, with additional quotas granted to foreign institutional investors to participate as well. But the stage is set for a major exodus of Chinese investment cash, very possibly to Hong Kong.'

'Our investors know Asia is home to several economic powerhouses,' said Glaesener at Internaxx. 'But they are keen to drill down even further and spot specific opportunities.'

'An interesting case is Singapore's stock exchange, SGX, which we added to our platform in April 2008. Around 70% of the exchange's IPOs come from foreign entities and 40% of listings on its securities market are foreign companies, with 150 from China. Its Reit market has seen compound annual growth of nearly 100% over the past five years.'

TD Waterhouse is a part-owner of Internaxx, and TWD's Daly said: 'In our

Investor Confidence index conducted at the end of last year, retail investors were most optimistic about the Asian stock market, with around a third predicting it would perform most strongly over the next few months. Our customers are still interested in China, Latin America and India as well as mainland Europe, but according to our top ten funds, Russia is not as over-represented as it was.'

So how can private investors to go global most efficiently? As already mentioned, ETFs offer exposure to international indices relatively cheaply. They can be bought and sold like ordinary shares, but provide instant exposure to many more companies, giving the flexibility of a share with the diversity of a fund. And you can trade a number of shares in one go, with no stamp duty.

Actively managed funds offer access to a range of shares without language and time-zone problems – though with the liability of an annual fee.

You can also invest in individual shares through an international broker such as TD Waterhouse which does not charge a premium on US, Canadian and most European trades. To trade individual shares on some emerging markets, investors commonly use a local broker to the country, or a full-service broker.

For global shares Glaesener claims a specialist international broker is cheaper than a more generalist broker: 'With sliding scale charges on a fixed fee basis, our customers benefit from savings of up to 3.5 times compared with customers of brokers who charge on a percentage basis.' ■

## Five international shares to buy now

**Golden Meditech (HKG:8180)** is a leading healthcare player in China, with three main businesses: medical devices, cord blood bank and Chinese herbal medicine. Profits at medical devices, specialising in autologous blood recovery, are forecast to grow between 13% and 17%. Over 60% revenue growth is expected for blood bank over the next few years, as it plans to expand from two to eight cities by 2010.

**Geely Automobile Holdings (HKG:0175)** is the listed unit of China's largest privately owned carmaker, and expects to acquire stakes in five auto-

motive ventures by late June. China's car market grew 25% last year overtaking Japan as the second-largest car market in the world. Just 6% car ownership means huge growth potential.

**Freenet AG** is a German internet and telco, currently one of the most popular overseas stocks for TD Waterhouse clients. In April, Freenet agreed to buy rival Debitel for €1.63 billion. Operators are using such acquisitions and buyouts to grow their war chests, to become national players in next-generation mobile networks.

**D-Box Technologies (CVE:DBO)** is a Canadian-based and listed designer of technology that allows home viewers of

films and video games to simulate the on-screen action in their own chairs. It recently signed a deal with Disney to add 'D-Box Motion Code' support to titles in its Blu-Ray format. D-Box is currently one of the most popular shares traded by E\*TRADE clients worldwide.

**JA Solar (NASDAQ:JASO)** makes solar cells. Based in China, its results posted in March saw full-year revenue up 286% to \$369 million, and operating income up 240% to \$61.2 million. It expects production capacity to rise even faster this year. Solar sector growth is a near certainty, given rising demand for energy and the soaring price of oil.