

ETFs Trade idea

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Five reasons to look at TECH now

Trade idea – ETFS Morningstar Global Technology ETF (TECH)

Key Takeaways:

- Technology stocks have continued their strong run in 2018
- Technology firms may be more resilient to a global trade war
- The sector has proven to be robust in changing market conditions over recent years
- **TECH** includes valuation and quality features that may alleviate concerns of some investors
- Investors considering the technology sector should look at **TECH**



In this week's *ETFs Trade idea* we focus on the *ETFS Morningstar Global Technology ETF (TECH)* and look at five reasons why you might want to consider an investment in technology in the current market.

1. **Information Technology still has significant momentum.** It was one of the best performing sector's in 2017 and continues to outperform in 2018. On a total return basis, the MSCI World Information Technology Index has returned 14.7% year-to-date, compared to 3.2% for the overall market, as detailed in Chart 1. Technology firms currently represent 7 of the world's 10 largest companies and growth continues at pace as the rate of innovation accelerates and technology becomes increasingly embedded in people's everyday lives. Technology firms also heavily influence returns across other sectors, as firms adopt technology to improve productivity, efficiency and quality.

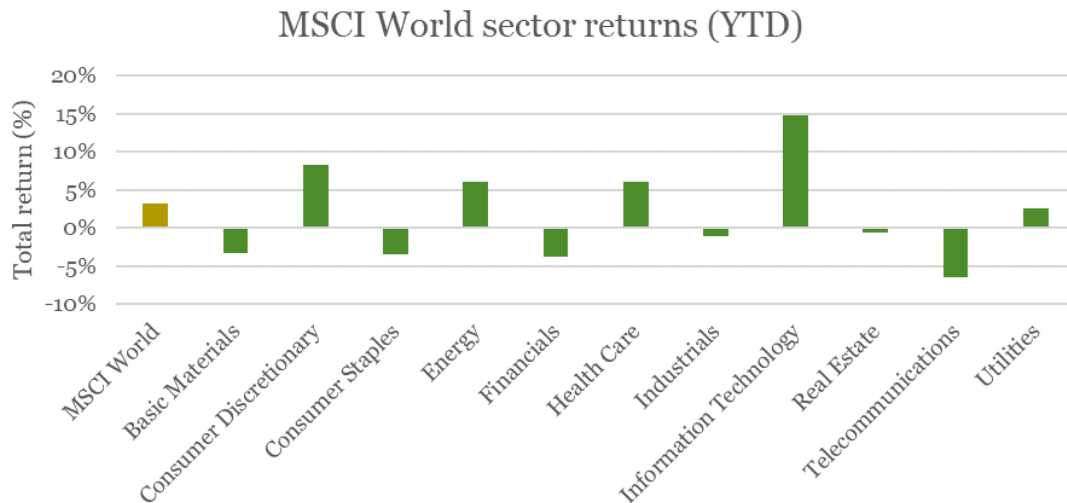


Chart 1: MSCI World sector index total return in US dollars from 31/12/2017 to 20/7/2018. Source: Bloomberg.

2. **Technology firms may be more resilient to a global trade war.** As global trade tensions rise, technology stocks continue to outperform partially, at least, as a result of their perceived immunity to tariffs and protectionist policies. While many technology companies import materials and manufactured components, particularly from China, the impact of the escalating trade war may be limited for firms who differentiate their products and services on factors other than price.

3. *Technology is more defensive than it once was.* If trade wars or other geo-political risks events arise to destabilise the global economy, the technology sector may not be a bad place to be. Technology is certainly not as cyclical as it once was. In many ways, technology at the large-cap end of the spectrum is almost a defensive play in 2018. Many technology offerings are more akin to “staples” than “discretionary” in terms of people’s spending patterns. Also, technology firms are amongst the largest holders of cash, with Apple alone holding US\$74bn in cash and short-term investments on its balance sheet¹.
4. *TECH selects stocks based on attractive valuations.* If you are concerned about over-heated valuations in the technology sector it is worth noting that the stocks trading at the highest multiples are those at the big end of the street. The average PE ratio for the FAANGs (Facebook, Apple, Amazon, Netflix and Google) is 104 versus 24 for the S&P 500 Information Technology Sector Index². **TECH** tracks the Morningstar Developed Markets Technology Moat Focus Index, which selects the most attractively valued stocks from those rated by Morningstar’s analysts as having the highest levels of competitive advantage over their peers. Furthermore, the Index is equally weighted, meaning that the portfolio is skewed away from the mega-cap FAANGs. It also completely excludes Amazon, which is categorised as a Consumer Discretionary stock.
5. *TECH performance is strong relative to peers.* Since inception in April 2017 **TECH** has returned 49.2%. To give this figure some context, over the same period the S&P/ASX 200 returned 12.7%. BetaShares NASDAQ 100 ETF (NDQ) is the most comparable ETF, although it is not a pure technology fund. **TECH** has outperformed NDQ by 10.1% to date. **TECH** has also outperformed active funds on offer from Platinum and CFS. BT Technology Fund, which charges a management fee of 1.95% compared to **TECH**’s 0.45%, has outperformed **TECH** by 1.6%.

Performance of Australian global technology funds

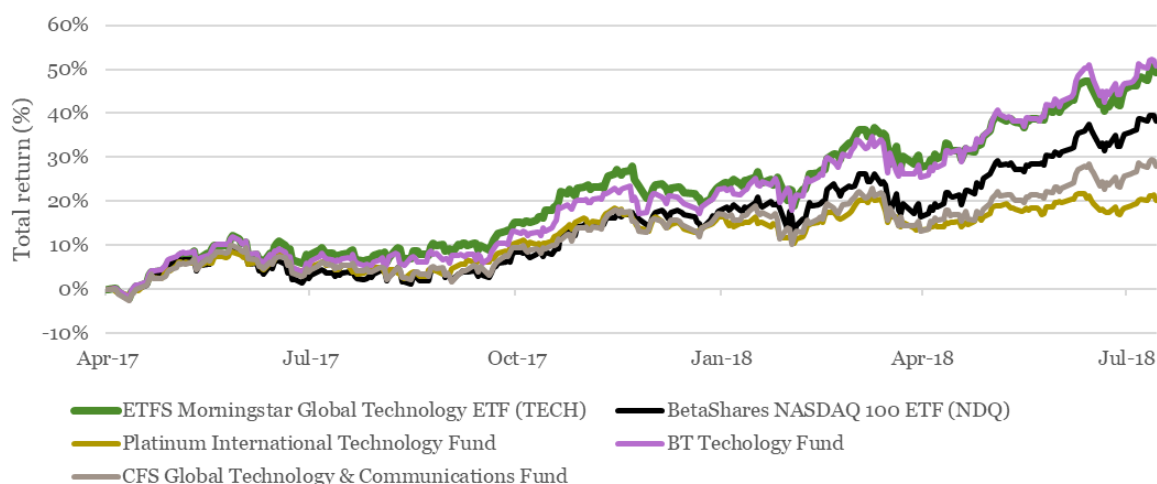


Chart 2: Comparative total returns of a selection of Australian-domiciled technology-focused funds from 4/7/2017 to 20/7/2018. Source: Bloomberg.

[ETFS Morningstar Global Technology ETF factsheet](#)

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¹ Source: Bloomberg data from Apple’s most recent financial statements as at 30/9/2017.

² Source: Bloomberg data as at 23/7/2017.



ETFS Management (AUS) Limited
Suite 2a, Level 11, 309 Kent Street
Sydney, NSW 2000
Australia

t +61 (2) 8311 3488
e infoAU@etfsecurities.com.au
w www.etfsecurities.com.au

CONTACT ETF Securities**Sales**

Phone: +61 2 8311 3488
 Email: infoAU@etfsecurities.com.au

Ganesh Balendran

Co-Head of Sales
 Phone: +61 3 8518 4824
 Mobile: +61 4 2378 3284
 Email: ganesh.balendran@etfsecurities.com.au

Kanish Chugh

Co-Head of Sales
 Phone: +61 2 8311 3476
 Mobile: +61 4 1209 1154
 Email: kanish.chugh@etfsecurities.com.au

Linda Cheng

Business Development Manager
 Phone: +61 2 8311 3479
 Mobile: +61 4 8800 8245
 Email: linda.cheng@etfsecurities.com.au

Trading

Phone: +61 2 8311 3483
 Email: primarymarkets@etfsecurities.com.au

Chad Hitzeman

Business Development Manager
 Phone: +61 2 8311 3472
 Mobile: +61 4 6639 5271
 Email: chad.hitzeman@etfsecurities.com.au

Gemma Weeks

Business Development Manager
 Phone: +61 2 8311 3475
 Mobile: +61 4 6636 2055
 Email: gemma.weeks@etfsecurities.com.au

Nicola Culey

Business Development Associate
 Phone: +61 2 8311 3481
 Mobile: +61 4 4718 3111
 Email: nicola.culey@etfsecurities.com.au

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ETFS Management (AUS) Limited
 Suite 2a, Level 11, 309 Kent Street
 Sydney, NSW 2000
 Australia

t +61 (2) 8311 3488
 e infoAU@etfsecurities.com.au
 w www.etfsecurities.com.au