

## Accessing hard-to-reach markets via ETFs

Nick Good of iShares looks at how investors can use ETFs effectively, including to access restricted markets while avoiding any pitfalls in the process.



[Link to video for this interview](#)  
[Link to article for this interview](#)  
[Link to continuous education test](#)

### Interview

#### Nick Good

View the profile  
& other content for  
**Nick Good**

**Date:** Oct 2010  
**Category:** Asset Classes and Investment Styles  
**Tags:** Transparency, Liquidity, Risk

Page 1 of 1

- » One of the earliest applications of ETFs has been for investors to access hard-to-reach markets
- » Given the counterparty and liquidity risks of investing in emerging markets, investors should look at both the provider and individual structure of the ETF to understand what they are investing in
- » Different ETF providers approach ETFs differently – so investors should look at the willingness of a provider to support the market and at whether a provider is a fiduciary
- » There are some big gaps in the ETF market in Asia, for example, there are virtually no fixed income ETFs, there are relatively few commodities ETFs, and there are very few foreign equity ETFs

One of the earliest applications of ETFs has been for investors to access hard-to-reach markets, said Nick Good in an interview.

Emerging markets in particular offer attractive returns, he explained, as seen in 2009, for example. Yet things like licensing restrictions, limited access to local stock markets and high trading costs make it difficult for all types of investors to get access to emerging markets.

ETFs, however, offer transparent, liquid and low-cost ways for such investors to access emerging markets to participate in the potential returns available, said Good.

Knowing what their money is invested in, not having to pick individual securities, and knowing they can get their money back when they want it, are critical factors for emerging-market investors, he added.

#### Risks for investors to be aware of

Yet emerging markets tend to be relatively volatile, said Good, so investors need to understand them.

At the same time, there might be additional risks or concerns depending on the ETF structure.

These include counterparty and liquidity risks, he explained, so investors should always look at both the provider and individual structure of the ETF to fully understand what they are investing in.

#### Differentiating ETF providers

According to Good, different ETF providers approach ETFs differently, so investors should look at a provider's website as a source of information to assess the commitment of that firm to transparency and offering the types of products which suit investors' needs.

Investors should also look at the willingness of a provider to support the market, he added.

In addition, it is important to determine whether a provider is a fiduciary – which means that the firm's interests are aligned with those of its clients and it doesn't derive benefits from anything else than maximising returns and minimising risks in line with the investment objectives of the fund.

This is not the case with every ETF provider, said Good.

#### What's popular

When looking at the ETF market in Hong Kong, Good said that about 40% of the assets and almost 80% of the trading volume is in access products – either for China or India.

But there are some big gaps in the ETF market in Asia in general. For example, he said, there are virtually no fixed income ETFs, there are relatively few commodities ETFs, and there are very few foreign equity ETFs.

Also, many of the investible markets are not deep enough to support a large range of sector- or market cap-based indices.

But in those which are, Good said there is potential to provide narrower slices of the individual market – which allows investors to balance out large versus small cap and individual segments within the market.

Do you have any comments?  
Contact the editor:

T 852 2792 7707  
E [editor@hubbis.com](mailto:editor@hubbis.com)  
W [www.hubbis.com](http://www.hubbis.com)



© Hubbis (HK) Limited 2010  
[Disclaimer](#)