

ETF investments boom: the best and most popular in Australia

By ANTHONY KEANE

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11 Comments

Australia's fast-growing exchange traded fund industry is delivering a treasure trove of investment choice, but buying into its best performers comes with a warning for investors.

A new analysis by InvestSMART shows that the strongest-performing ETFs over the past 12 months and five years are not the most popular among investors, largely because they focus on individual sectors or themes rather than broader markets.

However, one theme has shone the brightest in recent years: US stocks, in particular the dramatic growth delivered by the US technology sector.

The InvestSMART analysis found the best-performing ETF of the past year, and second-best over five years, was the BetaShares Geared US Equity Fund, while Nasdaq-focused ETFs also have been stars, averaging annual returns of 20 per cent since 2019.

InvestSMART group CEO Ron Hodge said the best five-year performers were “predominantly those exposed to the United States Magnificent Seven stocks – Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta Platforms and Tesla”.

“ETFs exposed to lithium also performed well with nearly a 10-fold increase in lithium prices from 2019 to the end of 2022,” he said.

However, the best-performers are in higher-growth, higher-risk sectors, and Mr Hodge said the chance the entire top 10 would remain there in 2025 was “zero”.

InvestSMART found the most popular ETFs today are the Vanguard Australian Shares Index ETF, the Betashares Australia 200 ETF, VanEck MSCI International Quality ETF, Vanguard MSCI Index International Shares ETF and iShares S&P 500 ETF.

They each enjoyed net inflows above \$1.7bn in the year to September, and Mr Hodge said they were considered lower-risk the most of the best performers, which in 2024 focused on thematics such as cryptocurrencies and semiconductors.

“The irony is the worst-performing ETFs this year are also mainly thematic ETFs – just different themes that didn’t play out as expected,” he said. These included hydrogen, solar, green metals and clean energy.

ETF use continues to surge, with the sector’s value up \$46bn in the past year to almost \$220bn, and Mr Hodge said projections indicated it could more than double to \$500bn by 2030.

Financial strategist Theo Marinis said his clients were big users of ETFs, largely because of their cost-effectiveness.

“They’re halfway between a managed fund and owning the asset yourself directly,” he said.

“Across the board, ETFs are bringing investment fees down.

“It’s more transparent, and there’s all manner of ETFs coming up – active, index, you name it. We tend to use index because of the cost-effectiveness and transparency.”

InvestSMART’s Mr Hodge said 90 per cent of new money flowing into the sector was directed into passive, index-tracking ETFs.

Meanwhile, a separate report by Global X says for the year to September 30, two of the three best performers were cryptocurrency-related: the Global X 21Shares Bitcoin ETF and the Betashares Crypto Innovators ETF.

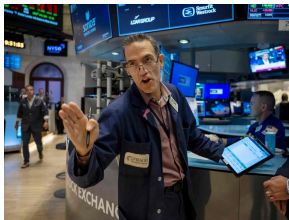
It says this was fuelled by falling interest rates, higher risk appetite among investors and also strong flows into bitcoin ETFs, but it also noted that the most popular were

large, index-focused offerings.

“Australian investors seem to be favouring two things – low cost and simplicity,” the Global X report says.

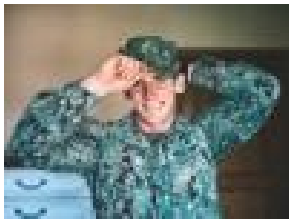
“While the ability to gain broad and diversified exposure is a major advantage of using ETFs, some investors may not fully consider the tax efficiency ... one key advantage is that ETFs trade directly on the stock exchange, allowing investors to buy and sell shares among themselves without requiring the fund to adjust and excessively trade its underlying portfolio holdings.”

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