Gain exposure into Europe with ETFs!

21th Jun 2010 by Liu Zhirong Daryl | darylliuzr@phillip.com.sg

About Europe

The European economy comprises of more than 720 million people in 48 different countries. The Western economies all have high GDPs and living standards as compared to the emerging eastern Europe's economies that emerged from the collapse of the Soviet Union. Many of these west European countries are ranked highly in the world in terms of GDP. Major economic sectors include agriculture, manufacturing, and banking.

European Union (EU)

The European Union (EU) has developed a single market through a standardized system of laws which apply in 27 member states, ensuring the free movement of people, goods, services, and capital. It maintains common policies on trade, agriculture, fisheries and regional development. Sixteen member states have adopted a common currency, the euro, constituting the **eurozone**.

If considered as a single economy, the EU is currently the largest economy in the world by nominal GDP and the second largest trade bloc economy in the world by purchasing power parity (PPP) valuation of GDP. It is also a large exporter and importer of goods and services, and a huge trading partner to several large countries such as China and India.

So why invest in Europe?

Investing in Europe offers some of the below advantages:
- One of the world's largest economy (measured by GDP)
- Simplified Euro currency system allow Investors to benefit from enhanced market visibility and liquidity.
- Emerging competitive pressures constantly force European companies to improve productivity.
- Equity ownership continue to grow among European individuals and institutions.
- EU countries offer a strong legal and regulatory system.

To include Europe as part of their portfolio, investors can easily gain exposure into Europe via ETFs.

Exposure on the Euro

Investors in foreign ETFs should be aware of two components to their return. Other than the return in the underlying assets the fund holds, Investors should also be aware of the fund's currency return.

If investors do not wish for their portfolio to be affected largely by fluctuations in the value of the Euro, there are several ETFs tracking individual countries in Europe but do not have direct euro exposure. The United Kingdom, Sweden and Switzerland are three European countries that still retain their own currency.

Even so, investors cannot completely hide from euro dependency in these funds, since many firms in these ETFs do business in Europe, but investors will suffer a smaller decline or enjoy a smaller return should the euro weaken or strengthen.

Global Diversity

After Europe ETFs, the greatest Europe exposure comes from ETFs that aim to track all-world, excluding U.S. indices. These are typically heavily invested in Japan and the U.K., followed by the eurozone countries, plus Sweden and Switzerland. Indices like FTSE All-World ex-US has 25% eurozone exposure and 45% total European exposure. The MSCI EAFE Index also has similar exposure. While there are several excluding-U.S. and excluding-Japan ETFs, there is no excluding-E.U. option for investors in the U.S.

List of Europe ETFs:

For a list of ETFs that give exposure to Europe, you can follow the below link:

List of European ETFs