Five Reasons Why You Should Consider Global Equity Income Investing

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Bruised by market volatility of recent years, Australian investors have shown a strong appetite for yield-oriented investments. Yet in a persistently low-interest rate environment, high-yielding opportunities have become more difficult to find onshore.

While international high yield equity investments do not carry franking credits, they may offer investors a range of other benefits that have the potential to enhance overall portfolio performance. A global dividend exchange traded fund (ETF) can be an effective way to access these benefits, creating a sustainable and diversified income stream through a single investment.

Here are five reasons why you should consider a global income equity portfolio:

1. **A Bigger Opportunity Set**

   Did you know that the Australian equity market represents less than 2.30% of the global stock market capitalisation?[1] Many Australians tend to have a home bias when it comes to investing, but they are missing out on a bigger universe of opportunities. Why limit your holdings to local dividend marquee names like the Big Four banks, when you can also gain exposure to some of the highest dividend yielding companies in the world like Fortum (electric utility, Finland), Starhub (telecoms, Singapore), Enagas (oil & gas, Spain), and Waddell & Reed (financials, US)?[2]

2. **Potential Risk Reduction**

   What if a company suddenly cuts or stops paying dividends? While Australian companies have been historically ranked high globally in terms of dividend payout ratios, they are not immune to these risks. Dividend cuts can hit investors hard — not only with the prospect of lower income returns but also a depreciating share price.

   A highly selective global equity income strategy can help investors minimise this risk. The SPDR® S&P® Global Dividend Fund (WDIV), among the first global dividend ETFs in Australia, focuses on dividend sustainability. Instead of focusing on dividend payouts alone, the fund's underlying index screens for companies that have shown increasing or stable dividends for at least 10 consecutive years. This sustainability criteria aims to help investors achieve smoother equity income returns as well as avoid dividend traps.

3. **Uncommon Diversification**

   A large proportion of dividends in Australia are contributed by a handful of Australian companies. In a global dividend fund, there's less likelihood that a few companies or industries dominate. For example, WDIV offers exposure to 98 companies across Europe, Asia North America and Africa.[3] Most importantly, the sector breakdown shows 24.4% exposure to Financials, 17% to utility stocks and 15% to real estate[4] — a stark contrast to several Australian dividend indices. This difference may play an important role in reducing the impact of market volatility or a local economic downturn.

4. **Offset Low Bond Yields**

   The fear during a rate rising environment is that equities become less attractive and less necessary as income vehicles versus cash and fixed income. However, the current slow, controlled rate-tightening cycle in developed markets should not cause a panic for the exit for high-yielding equity income investors. In a diversified portfolio, high-yielding equities can continue to help compensate for still very low bond yields in Australia and other developed markets.

5. **Growth Opportunities**

   While income is the primary objective, investors in high yield equities can also capture capital appreciation. In a stock selection methodology that explicitly avoids value traps such as WDIV's, the resulting portfolio tends to be made up of companies with sound business prospects with potential for share price growth.

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[1] Weight of Australia in the MSCI World Index was 2.66% as of end of August 2017.

[2] These securities featured in the SPDR S&P Global Dividend Fund as at 15 November 2017. This information should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security.

[3] Source: State Street Global Advisors, as ta 31 October 2017.

[4] Source: State Street Global Advisors, as of 10 November 2017.

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