

# AN AUSTRALIAN'S GUIDE TO INVESTING IN U.S. STOCKS

*Matthew Jones*

**"Access to the U.S. gives you  
access to the world"**

# TABLE OF CONTENTS

- 1** Why you should invest in U.S. stocks?
- 2** Should you buy U.S. stocks if you don't know anything about them?
- 3** Where to find valuable research on U.S. stocks?
- 4** How to invest in the U.S. stock market from Australia?
- 5** How can you pay for U.S. shares?
- 6** Do you have to pay U.S. tax if you invest in U.S. stocks?
- 7** What are the risks when buying U.S. shares and how can you avoid them?
- 8** Is buying U.S. shares expensive?
- 9** How safe are your assets when investing in the US stock market?
- 10** What protection does SIPC offer U.S. stock market investors?
- 11** What are the technicalities of buying and selling U.S. shares?

# 1

## Why you should invest in U.S. stocks?

The first question that comes to mind when thinking about investing in U.S. stocks is, why do it? To that question, I would reply, why not? As you're about to discover, investing in U.S. stocks is much easier than you think and it offers opportunities unobtainable in Australia.

The Australian stock market consists of approximately 2200 companies, the vast majority of which operate in the mining sector. There's also a very well-established financial sector listed on the ASX dominated by the big four major banks. Outside of the mining and banking sectors, the offerings become pretty thin.

We have no truly multi-national listed companies, no real technology plays, very few biotechnology companies, and even the energy sector is pretty thin. How about automotive, defence, retail or entertainment?

**Access to the U.S. gives  
you access to the world**



By comparison, the U.S. is the largest equity market in the world with over 10,000 companies from all sectors and countries. For it's not just U.S. companies you'll find listed on the U.S. exchanges. As the world's premier place to raise equity, the U.S. attracts companies from all over the world seeking access to funds. It's not unusual to find companies from China, Europe, the Middle East and South America listed on the U.S. exchanges. Access to the U.S. gives you access to the world.

But it's the two growth sectors, technology and biotechnology that really matter. No one can deny the impact technology has on our lives and the rate of change we have now come to expect from the industry. We all want the latest and greatest and there are many companies out there developing these products for us.

The second global theme driving growth is our ageing population. We all want to lead longer, healthier lives and as we live longer our need for healthcare grows. Biotechnology companies service these needs.

If you want to grow your capital you must invest in companies that are growing. With the mining boom over there's not a lot of growth happening in Australia. At the time of writing (December 2018), the All Ordinaries Index is up 10% in the last 5 years. The Nasdaq U.S. index is up 76%. Where do you think it would have been easier to make profits?

# 2

## Should you buy U.S. stocks if you don't know anything about them?

This is something I hear all too often from investors, but in reality, it couldn't be further from the truth. I suspect that your day went something like this:

- You woke up lying on your Sealy mattress
- Turned off the alarm that you purchased on Amazon
- Ate a bowl of Kellogg's cornflakes for breakfast
- Wore your Nike runners for a quick jog, monitoring your Garmin watch
- Drove your Ford car to work
- Grabbed a coffee from Starbucks or Krispy Kreme doughnuts
- Used your Intel-based computer all day checking Facebook more than working
- Searched Google whilst researching your project
- Prepared your presentation using Microsoft Office
- Made some calls to friends on your Apple iPhone
- Grabbed some quick McDonalds for lunch
- Found a bargain on eBay and paid for it using PayPal
- Went to the movies after work to see a Disney film, while scoffing down some Ben and Jerry's ice cream

In reality, you actually use a lot of U.S. products every day, made by companies that predominately have an easy to understand business model. They make and sell products and the more they sell, the more profits they make.

I would argue that you understand more about companies like Apple than you do about the Commonwealth Bank. Although we think we know what the bank does, do you really know how they make annual profits of \$8 billion? If the RBA increases interest rates, does that have negative or positive implications for the bank? If Apple releases a new phone with cool new features, what do you think this will do for their profits?



# 3

## Where to find valuable research on U.S. stocks?

Research is actually more plentiful and freely obtainable for a U.S. stock than it is for an Australian stock. The size of the U.S. market means there are many more resource providers.

Websites such as Yahoo Finance and FT.com all contain an immense amount of free information from historical earnings to analyst predictions. You can also find free stock research tools at the Capital 19 website under 'resources'.

You can find everything you need from these free websites, however, if you prefer to pay for your research then there's an almost unlimited choice available to you. You can use familiar sites such as Morningstar or Standard & Poor's, or newsletters like investors.com and Motley Fool plus a myriad of others, all claiming to have the best research.

We also produce our own research which is freely available to all Capital 19 clients.

# 4 How to invest in the U.S. stock market from Australia?

Now that you've decided you want to buy U.S. shares, how do you go about it?

The process is basically the same as buying Australian shares. First, you'll need to find a broker with access to the U.S. markets. U.S. brokers tend not to accept Australian clients as they don't meet our regulatory rules.

The good news is there's a number of companies in Australia that can give you access to the U.S. stock markets. Most of the big players can help but they tend to charge very high fees.

Capital 19 specialises in accessing the U.S. stock markets and you can expect the fees to be less than what you're currently paying to buy an Australian share.



# 5

## How can you pay for U.S. shares?

When you buy U.S. shares you need to settle this in U.S. Dollars. As an Australian, you probably only have Australian Dollars. The traditional way of buying U.S. shares is to open an account with a broker who has access to U.S. markets.

**That broker will operate in one of two ways:**

1. You'll need to send them USD before you can buy a share. This will require you to go to your bank and instruct them to convert your AUD to USD and send it to the broker. The banks will charge a transaction fee of around \$35 for this, but this cost is insignificant compared to the fee hidden in the exchange rate.

Have you ever noticed that the exchange rate which the bank gives you is different to the exchange rate that you see quoted on TV? This difference is what the bank is charging you to exchange the currency and it can be as much as 3 to 5%. But once you do this, you'll have USD available to buy U.S. shares with.

**2.** Your U.S.-enabled broker might direct debit your Australian bank account, as they do when you buy an Australian share. In this case, the information above about charging a hidden fee in the exchange rate will apply every single time you buy or sell a share.

Capital 19 has revolutionised this space, offering its clients fair and transparent pricing. Once your account is open, you'll need to fund it with Australian Dollars. You can then elect to transfer as much of these Australian Dollars into U.S. Dollars as you like. This transfer is done at a true wholesale exchange rate. This means the rate you'll get will be the same as the rate you'll see advertised on TV, with no hidden fees.





## Do you have to pay U.S. tax if you invest in U.S. stocks?

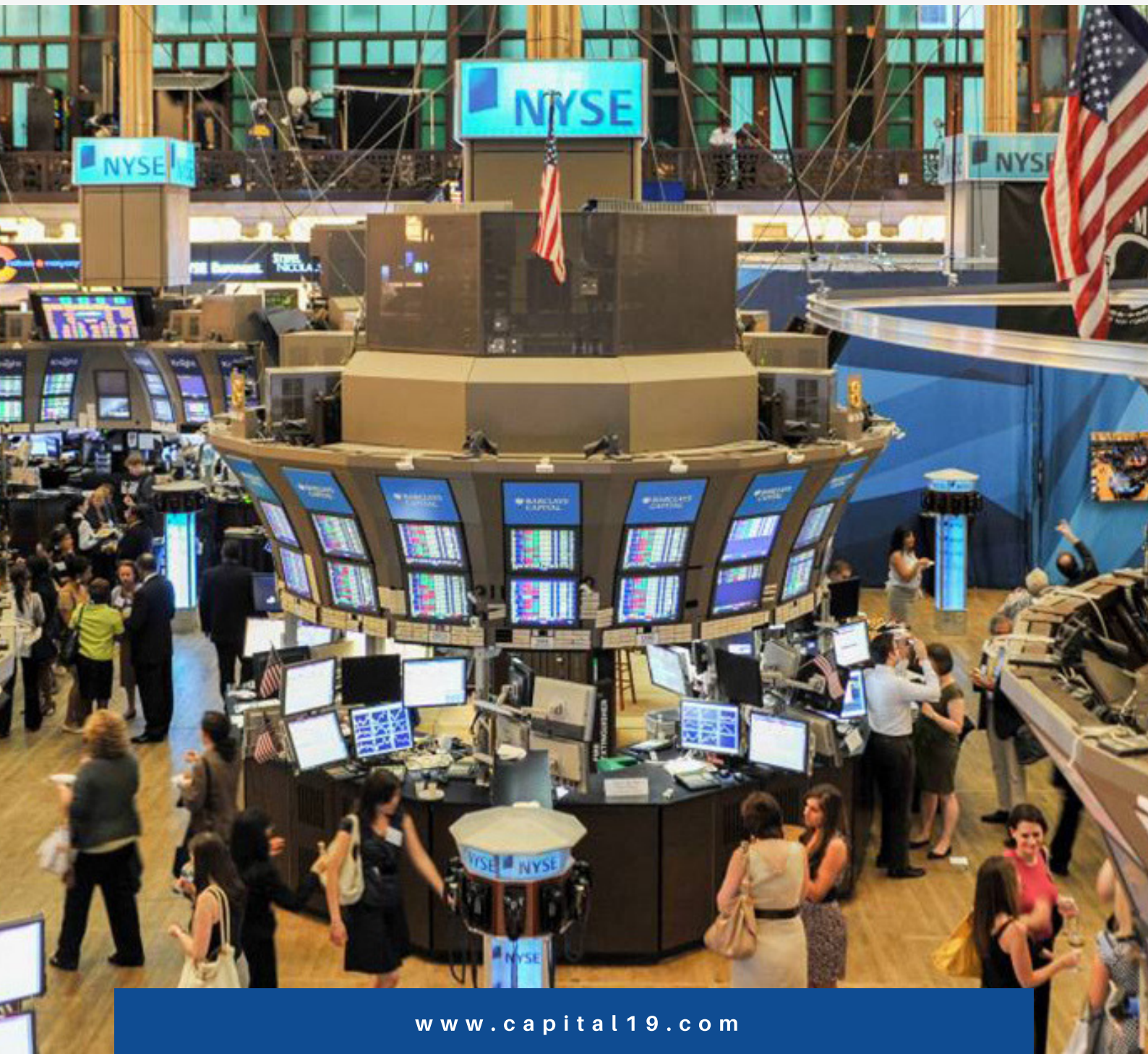
Tax is an extremely complicated subject and you should really talk to a qualified tax accountant about your specific situation.

As a non-U.S. resident, you'll be required to complete a W8-BEN form. Some brokers will insist that you complete it for every transaction that you make. This should mean you don't have to pay U.S. tax on your capital gains, and most people don't. The exceptions are those that hold a U.S. social security number or similar. Again, please check with a qualified accountant if you're unsure.

The U.S. will, however, withhold 15% tax on any dividend that you receive. The Australian Tax Office (ATO) also taxes U.S. investors buying our stocks if that makes you any happier.

As an Australian resident, you're liable for Australian tax. Generally speaking, any gains you make on U.S. shares will be taxed by the ATO in accordance with the Australian rules.

At Capital 19 we help you complete a W8-BEN form and we'll keep it on record for 3 years which covers all your buying and selling during that period. Then all you need to do is click a button on our website to renew it at the end of each 3-year period. We don't like paperwork any more than you do, so if we can find a way to make things easier, we will.



# 7 What are the risks when buying U.S. shares and how can you avoid them?

## Currency Risk

This is another consideration when buying U.S. shares from Australia.

If you own a U.S. asset, the value of that asset will go up and down as the AUD to USD exchange rate changes. If the AUD to USD exchange rate goes up, the value of your U.S. asset will go down in Australian Dollar terms. This is referred to as exchange rate or FX risk.

For example, suppose the exchange rate was 0.9000. You exchange A\$100,000 at this time for US\$90,000 and you spend this US\$90,000 on U.S. stocks. A little while later you notice that your stock portfolio value has not changed, it's still US\$90,000 but the exchange rate is now 1.000. At this point, even though your stocks have not changed, your original A\$100,000 is now worth A\$90,000.

It can work the other way as well. Suppose in the example above the exchange rate fell to 0.8000 then your US\$90,000 stock portfolio would be worth A\$112,500.

But there's something you can do about this.

If this concerns you, you can hedge this currency risk. A hedge simply means a transaction that does the opposite of what you have. So if you have a portfolio worth US\$90,000 then you need a hedge that is worth negative US\$90,000. The gains and losses on one will offset the gains and losses on the other.

It's actually a lot simpler to do this than you think and the Capital 19 advisers will help you put this hedge in place if you wish.





## Is buying U.S. shares expensive?

That depends on who you use as your stockbroker.

The large Australian stockbrokers treat the servicing of clients wanting to buy U.S. shares, as an afterthought, and they charge a lot for that service.

You also need to be careful and ensure that you read the fine print. Check for other fees such as custodian fees or inactivity fees, and pay special attention to the FX conversion fee as we've seen this being charged to investors as high as 0.6% for every trade.

At Capital 19, we try to keep things simple. We charge only US\$15 to buy a U.S. share with no currency exchange fee. So in fact it can be cheaper to buy a share in the U.S. than it is to buy an Australian share!



## How safe are your assets when investing in the US stock market?

This is another area that causes a lot of confusion, mainly because the Australian share market operates differently to the rest of the world.

In Australia, the stockbroker executes the transaction and a computer system called CHES (Clearing House Electronic Subregister System) sends you certificates noting that you hold the shares. CHES is used by the ASX to manage the settlement of share transactions and to record shareholdings. In the U.S. there's no such thing as CHES. Rather the stockbroker performs this function.

To answer the question, yes, the shares are held in your name, however, the way it works is slightly different.

I have come across investors who mistakenly believe that because they don't receive a CHES statement for U.S. shares, it means the shares are not in their name. This is incorrect as it just operates differently to what we're used to. But you do need to be careful and ask your broker if they use a custodian.

A custodian is a financial institution that keeps assets safe on behalf of its customers. In a way, you could think of a bank as a type of custodian that keeps your cash safe for you. A true custodian will look after all types of assets including cash, shares, options and managed funds.

Remarkably, you'll find that some trading companies in Australia don't use a custodian, instead, they keep their client's assets in the company name. This practice carries a huge risk for the investor as seen in recent times in the case of one such company that went into voluntary administration and had its assets (including investor's assets) frozen.

Needless to say, our practices are vastly more secure to avoid such a predicament and we use a custodian for maximum security of your assets. As these custodians are holding funds, they are held to a very high standard by the regulators.

In Australia, all custodians must be approved by the Australian Securities and Investments Commission (ASIC). A major benefit of using a custodian is that you can hold all types of assets in the same account and they will often take care of the paperwork involved in investing for you, reducing the overall workload in this area.

In Australia, custodians are underutilised by retail investors but used all the time by institutions and government bodies. If you've ever seen a list of the top 10 shareholders in a stock like BHP, you'll have noticed that the top holders are XYZ Nominees, ABC Nominees etc. These nominees are in fact custodians. If they're the top holders in a stock like BHP, you can imagine just how much money has been entrusted to them. That amount of money is usually smart, well-informed money. If they view a custodian as being safe, it's fair to say they've done their homework first, and as individual investors, we can feel safe about custodians as well.



# 10

## What protection does SIPC offer U.S. stock market investors?

The Securities Investor Protection Commission (SIPC) is an organisation in the U.S. that guarantees assets (cash and shares) held with a stockbroker, or as they tend to call them, a broker-dealer. Members of SIPC are able to provide their customers with a guarantee of up to \$500,000 (max. cash component of \$250,000) in the event of a failure of the broker-dealer.

When you deal in U.S. securities make sure that your broker is a member of SIPC.

Capital 19's broker-dealer partner is a member of SIPC so that all Capital 19 customers are entitled to this cover. In addition, there's an insurance policy in place with Lloyds of London that increases this cover to up to \$900,000 in cash and a total of \$30,000,000 for any single claim if the SIPC cover is not enough. You can learn more about SIPS on their website [www.sipc.org](http://www.sipc.org)

# 11

## What are the technicalities of buying and selling U.S. shares?

Buying and Selling U.S. shares is the same as buying and selling Australian shares. You simply instruct your broker what you want to do, either using their online trading platform or website or by calling them and speaking to a representative.

Usually, the U.S. market doesn't need to be open for you to place an order, but you'll need to check with your broker on how they'll route your order. Some brokers implement unusual rules around when and what type of order you can place.

Australia now has two viable exchanges that your order could be routed to, whereas the U.S. has dozens. This means that the share you want to buy could also be trading on several different exchanges at the same time. There might also be slight price variations between exchanges and different rules around the type of order you can place.

With the same stock trading on multiple exchanges, it becomes difficult to discern what the actual stock price is because it depends on which exchange you ask. To combat this, the United States Securities and Exchange Commission developed the National Best Bid and Offer (NBBO) regulation. This looks at the various exchanges and finds the highest bid and lowest offer and considers that as the price for the stock.

## **SMART Routing**

Capital 19 makes use of a clever piece of technology called SMART routing. This system checks your order and the prices on each exchange and then routes your order through to whichever exchange will get you the best price. SMART routing has been proven to get better prices than even the NBBO by up to 0.06 cents per share<sup>[1]</sup>, ensuring you always get the best possible prices for your orders.

---

1 Interactive Brokers



Phone: +61 2 9002 0360

Fax: +61 2 8089 1082

Email: [info@capital19.com](mailto:info@capital19.com) | [www.capital19.com](http://www.capital19.com)

Address: Level 5 64 Clarence Street, Sydney, NSW 2000