Transcript

The Ideas Exchange - Episode 48

A beginners guide to investing

February 2025

Jacinta King (00:00):
Welcome to The Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I am Jacinta King, Business Development Manager, Investment Products at ASX, and this is our regular podcast, covering everything from investment trends through to different ways to invest using a variety of products.

Disclaimer (00:20):
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Jacinta King (00:47):
Welcome to The Ideas Exchange. I'm your host, Jacinta King from ASX. CommSec is Australia's leading online broker with more than 25 years of industry experience, and today I welcome to the studio Laura Besarati, who is Market Analyst at CommSec. Laura is our first guest in a three-part series we've called Getting Started with Investing. So, thank you for joining us, Laura.

Laura Besarati (01:09):
Thank you for having me.

Jacinta King (01:10):
It is a hot and balmy day outside in Sydney, so I appreciate you coming down to the studio. We're going to dive right in, but it is a new year, and February is almost upon us. So, I have to ask, what are your thoughts and views on New Year's resolutions? Is it a yay or a nay for you when it comes to New Year's resolutions?

Laura Besarati (01:29):
Look, unfortunately, it's a nay for me on New Year's resolutions.

Jacinta King (01:33):
Yes.

Laura Besarati (01:34):
It's an unpopular opinion, but for me personally, if I want to start something, I'll start it. I personally don't need to wait for the New Year, but in saying that, it is a good time to reflect on all of your successes and maybe challenges of the previous year and also plan out what your next 12 months are going to look like, whether that be financial goals, personal goals, or even fitness goals.

Jacinta King (01:54):
I agree. I've never actually been that great at keeping to my resolutions, but I'm aligned with you in that it's good to look at it throughout the year and I'm sure that really, many of our listeners are great at setting New Year resolutions and sticking to them. And I do think that part of it is having a plan and making those small consistent steps towards your goals. And for those of our listeners who tune in regularly, they will actually have heard us talk a lot about this. Today, we're starting at the beginning and the foundations of investing, and for the listeners who are new to or wanting to learn more about investing, we've put together a list of things to consider when you're thinking about investing on the ASX. And these are actually drawn from feedback from our Investor Days. So we run face-to-face Investor Days twice a year.

(02:41):
It's also drawn from my time speaking to investors. I've had some great conversations over the years, so I've put my head together and here we go. Laura, I'm going to throw you a few phrases and questions and we'd love your thoughts and insights on where to start with investing. Are you ready?

Laura Besarati (02:57):
I'm ready.

Jacinta King (02:57):
Good. So direct stocks or via a fund like an ETF or a listed investment company, listed investment trust, what are the differences?

Laura Besarati (03:07):
So first of all, I'll start by explaining each of these concepts. So, investing directly into stocks is buying a share in a company, for example, whether it be Commonwealth Bank, BHP, which is our largest minor, CSL, our largest healthcare stock, or whatever company it may be. And that essentially buys you a stake in the company, you become a part owner of that company. And then we can look at exchange traded funds, which is basically a basket of assets already packaged up nicely for investors with

a bow on it, I like to say. So, when you buy an ETF, you buy a share in the fund that owns that asset, not the asset themselves, which is also the case for LICs and LITs, as you spoke about there.

(03:49):
So, I guess for simplicity for a new investor, the main thing to know is that you can invest directly into a company or into a fund like an ETF, LIC or LIT. And in terms of these types of funds, they are slightly different. I won't get too much into the detail of how they operate, but basically the differences in their structure, transparency requirements, management styles, fees and dividend or distribution payouts. So, we always talk about ETFs here at CommSec and it's a great way to diversify your portfolio in just one trade. So, it takes out some of that decision-making for new investors. It's time efficient and cost-effective.

Jacinta King (04:30):
Fantastic. So, I'll mention there that there's ample information on those different structures that you can have a look at on your broker. CommSec's got plenty of information. Also, the ASX and the individual fund managers who provide the ETFs will also have some descriptions there. Now, just say I'm a new investor and I've sat down, I've got my head around those differences that you've just gone through. How do I now buy and sell some shares or ETFs?

Laura Besarati (04:55):
Look, it's absolutely easier than it ever has been. So, it's basically at an investor's fingertips. If you go back 10 or 20 years ago, it was definitely a much lengthier process. So first of all, you'll need to open up an account with a broker. For example, CommSec is a broker, and if you're already a CommBank customer, that cuts down the application time as well. Instead of a broker, you do also have the option of going through a financial advisor, but that does come with a price tag. So, make sure you weigh up those two options. And once your account is up and running, which can be done in as little as five minutes for domestic trading accounts, you can join for free as well. Then you can make your first trade in just a few minutes. So, whether you're buying or selling shares, it's pretty easy and it's all digitized.

Jacinta King (05:41):
Okay, sounds all right. So then when is the market open and closed?

Laura Besarati (05:47):
Well, the Australian share market does start opening at around 10:00 AM. Getting into the nitty-gritty, it opens in five stages, but we won't get into that.

Jacinta King (05:47):
Sure.

Laura Besarati (05:56):
So just think it's open between 10:00 AM and 4:10 PM, that's Sydney time. So those are the normal trading hours.

Jacinta King (06:03):
Okay. And then going back to... You mentioned your broker, it's pretty straightforward and easy these days and digitized. So what kind of tools are available and how will they assist me as an investor?

Laura Besarati (06:16):
First of all, I want to touch on today's world where everything is about social media. Everyone's got a platform to say whatever they want to say. We have TikTok, we have Instagram, and everyone has that platform to give out potentially financial advice. So, I will warn investors to use credible resources only. So that might be a financial website or a government website like the Australian Financial Review. We've got the ASX website, and we've also got the CommSec website, which has a bunch of tools and resources available. So, we have heaps of articles to help you get started. Topical articles about things like different sectors, relevant stocks like Nvidia, which you may have heard of, and also articles to help you navigate a volatile market environment, which is like right now.

(07:04):
So there's plenty of tools. ETF scanners, I'm not going to get into all of them, but at CommSec, we also have plenty of other resources, like twice daily podcasts, we have videos on YouTube, on socials, and that's the sort of social content that you can actually trust because it's from a credible resource.

Jacinta King (07:22):
Thanks. Now, just say I had a look at all of that and I'm focusing on ETFs or the LICs and LITs, the listed investment companies and trusts, and I've come across this terminology, active investing and passive investing. So can you just explain a bit about that, please?

Laura Besarati (07:39):
Active investing, as the name suggests, is actively buying and selling investments. It might be on a daily basis, maybe weekly, but it's more than likely, your day trading, going in and out of trades on a regular basis. On the flip side, passive investing is more of a buy-and-hold type of strategy when you're investing over the longer term. So, keep in mind with active investing that generally, it needs a more in-depth understanding of the share market and all of the factors that can influence it, like economic

data, changing laws and regulations, major announcements, commodity prices, conflicts and more. So, we can't always be on top of all of those things and that's why active trading or day trading is more skewed to someone who's maybe a little bit more sophisticated in trading, and passive investing might be a better option for someone who's newer to investing and just wants to grow their wealth over the long term.

Jacinta King (08:34):
Great, and I've got one last question. There's distributions and dividends. So, what can I do with them?

Laura Besarati (08:40):
Well, a dividend is basically a company sharing their profits with investors, and a distribution are generally paid from funds like ETFs for example. So, investors generally have two options when it comes to these distributions or dividends. The first is that they can reinvest via a dividend reinvestment plan, and that's only if the company allows. So, make sure you check if the company does allow that, and that basically automatically puts that money back into buying shares in that company or fund. And that means your holdings are automatically building up over time and you're not charged brokerage on those shares that you are buying. So sometimes the dividend might not be enough to buy another whole share so that money will keep building up until you have enough to buy a whole share of the company.

(09:29):
Now, the second option is to cash out or take the money. So that money will be deposited into your nominated bank account and essentially, you're free to do whatever you want with that money. You can even reinvest it yourself, but maybe into some other investments instead of putting that money back into that same stock or perhaps ETF. Now, it can be tempting to take the money, but generally, investing your money back into the share market can lead to bigger returns over the long term through the power of compounding. So, what I'll say is don't get too tempted and think about your future self.

Jacinta King (10:06):
Look, that's excellent. What a great overview. You've said a lot in a short period of time, so I appreciate those insights. Now, I think it's also worth mentioning that asset classes are important to understand and think about, but we're not going to go through these in detail today because investors can also jump onto the ASX website and broker website to look at some of the on-demand content that we've provided. But basically, once an investor has grasped those different asset classes and built a diversified portfolio across things like cash, fixed interest property, global and Aussie equities, I think it's also important for them to understand sectors. And that's where I wanted to land with you today because

sectors are used to analyze economic activity, identify investment opportunities, and also to assess risk, which is really important when you're investing. So, since we have you here, it'd be great to pick your brains and draw on your expertise as a market analyst and talk about the sectors. So, Laura, how are the sectors placed at the moment? Is the tech sector still out front?

Laura Besarati (11:07):
Look, I think before we get into how the sectors are performing this year so far, let's quickly take a look back at 2024. So, there's 11 sectors on the Aussie market and eight of those 11 sectors ended the year in positive territory and that means three of them fell. So, the best performers were tech stocks, they were up by 50%, driven by the US big techs because we generally follow what happens on the US market. Financials did second best. They were up by close to 30%, driven by our major banks. And on the other side, the worst performers were energy and materials stocks and they were influenced by different things like commodity prices, supply and demand changes, uncertainty. We have the war that's impacting commodity prices as well. So, plenty of things impacting these different sectors and driving them in different directions.

(11:59):
Now, you did ask if the technology sector is still out front. So, they were the clear outperformer last year, 50% as I mentioned. Now, I just want to say, it is still very early days. We're only towards the end of January, so do take this with a grain of salt. But look, the technology sector has been a strong performer for the past couple of years now. So, 50% last year, 30% the year before that in 2023. But look, no, at this stage, the tech sector isn't at the top of the list at the moment. They're sitting at number six. They're up by around 3%. They've been upstaged by the consumer discretionary sector, which we'll talk about just momentarily.

(12:39):
Now, in saying that the tech sector has done well, it is worth mentioning that the tech sector here in Australia is very, very small. In fact, it's our second-smallest sector. It makes up about 3% of our total market, whereas over in the US, it makes up about a third of their whole market. So very different things when we're talking about gains in the technology sector. So only a very small driver of what happens to the overall performance of the share market.

Jacinta King (13:09):
I might then get you to talk about financials if you could.

Laura Besarati (13:13):
I absolutely can. So last year, as we mentioned, they did pretty well. This year, they're doing okay as well. They've landed themselves in second

place once again. Again, very early days. They've been hitting record highs. Just a couple of days ago, the financial sector hit another record high and they've really been buoyed by the major banks. So, we've seen CBA hitting a fresh record high. NAB is hovering around a 17-year-high. ANZ and Westpac are both roughly around an eight-year high and Macquarie Bank hit fresh record highs earlier in January as well. So that's really what's propping up the financial sector. I guess it's going to be interesting to see what happens going forward from here with the outlook for interest rates.

(13:58):
But I also want to mention, it's not only the major banks that have been propelling the financial sector. It's also been companies like buy now, pay later firm, Zip. Its shares were up 366% in 2024. Now, that's because this is a company that actually benefits from lower interest rates in the US because that's where they do most of their business. And we know over in the US, they were cutting interest rates towards the back end of last year. Also, money manager, Insignia Financial has been doing well so far this year. And that's also helping to lift the financial sector and that's because they've had a lot of takeover interest as well. So not just the major banks, but they are a large driver of what's happening in the financial space.

Jacinta King (14:40):
Some phenomenal numbers in there and yeah, important to remember, I'm still guilty of thinking this is the big four, but with new technologies and future technologies still developing, there's a lot broader things to be thinking about there. Now, what about next if we tackle some of the worst performers?

Laura Besarati (14:59):
Okay, that's a good one to get to now because energy, as I mentioned, the worst performer last year, down 19%. Materials, down 17%, so not far behind. These two sectors are very dependent on what happens in the commodity space. So, when we're talking about commodities, we're talking about the price of things like oil. We're talking about the things like the price of iron ore and other metals as well, including gold, aluminum. And these are all the sorts of things that can impact what happens on the share market. So, for example, if you see oil prices going up overnight, you might see the energy sector up the next day because we're following oil prices higher. A similar story with materials. We have a lot of our big iron ore players in the materials sector, and it's worth mentioning the materials sector is actually the second-biggest sector on the Aussie market.

(15:54):
So for example, if iron ore prices were up overnight, we might see the materials sector performing well. So, it's important to understand the

sectors as a whole as well, how big they are and what sort of influence they have over the broader market. But these are the kinds of things that can influence what happens in these two sectors. Now, in the early stages of the new year, the materials sector is showing a little bit of a rebound. It's up by around 3%, but keep in mind, iron ore prices were under a lot of pressure last year. That's continuing into this year so far. So that's one thing that could potentially impact these two sectors this year.

(16:34):
We also have the threat of tariffs from Trump, so plenty of things that feed into how these sectors perform. So once again, a lot to be mindful of when you are a new investor. And that's why, going back to one of our previous questions, why perhaps active investing or day trading might not be ideal for a new investor because it does take some time to get your head around all of this information, I suppose.

Jacinta King (16:59):
Yes. And you drew on how those sectors can relate to each other and have knock on impacts, positive or negative, depending on what is happening. So finally, you mentioned consumer discretionary is the leader of the pack at the moment, and I often find it can be a dynamic sector and it can perhaps not do what we want it to do or expect it to do, and I think we've seen a bit of that over the last year or so.

Laura Besarati (17:24):
Yeah, look, this has been a pretty interesting space. So consumer discretionary was up by 20% in 2024, and yes, they were the best performer or they are the best performer in 2025 so far. They're up another 5.5%. Now, an interesting dynamic here because of course, we're living in an environment where interest rates are very high, we have very high cost of living, consumers are still very cautious, they're cutting back on spending in this environment. In fact, interest rates are at their highest level in over 13 years. We are at the breaking point mow, it is worth mentioning that interest rates are likely to be cut in February at this stage at the time of recording, which can obviously change. But look, I think the reason that the consumer discretionary space hasn't done too badly is because in fact, some of these companies like JB Hi-Fi for instance, they've been posting some better than expected results.

(18:21):
So even though profits are down, it's better than investors have been fearing. So, they've been talking about challenging conditions and analysts were expecting the worst, but they didn't do quite as bad. So that was a pleasant surprise and I think that's why consumer discretionary stocks, which is retail stocks, so the likes of JB Hi-Fi as we mentioned, Nick Scali, we have Harvey Norman listed on our market, Breville, plenty of these sorts of companies. They're doing a little bit better than we were

expecting. We were expecting the worst and they've pulled out on top and that's why they are performing okay, showing signs of some resilience.

Jacinta King (18:58):
Excellent, and I might draw out that you mentioned interest rates are still high, but I did listen to your market close yesterday and that chance that we're all hoping for of an interest rate cut has bumped up to 90% chance. So, everyone listening for that in the next few weeks, when RBA meet again.

Laura Besarati (18:59):
February the 18th-

Jacinta King (18:59):
February the 18th.

Laura Besarati (19:18):
Is the date that you want to be listening for-

Jacinta King (19:18):
Note that.

Laura Besarati (19:21):
2:30 PM, Sydney time is when the RBA will hand down their interest rate decision. So, as you mentioned, 90% chance of a cut. They haven't cut in over a year... Well, in fact, rates have been steady for over a year. They haven't cut in four years to be exact, but everyone's holding their breath for that. So, we've reached a turning point, for sure.

Jacinta King (19:39):
Absolutely. A collective sigh of relief, perhaps. Now, Laura, did you have any closing comments or key takeaways? We've covered a lot of broad ground. As I mentioned, this is just a beginner, an introduction to investing and we hope our listeners found it value, and any other things you'd like to share with us?

Laura Besarati (19:56):
Okay, there's a few things. So, one thing that I always like to tell a new investor is the earlier you start, the greater your opportunity for growth. What we always say is time in the market is better than timing the market. And in times like this, when things can be a little volatile, obviously we have Trump in office now, I think we're into his second week and we have four more years to look forward to. A lot can change on the back of Trump being in office, on the back of everything that he says. So, I guess my point here is to be logical when it comes to investing. Make sure you have a plan and you stick to your plan rather than getting emotional. If you see the market falling, investors tend to get a little bit of scared. They sell their

shares and they might actually make a big loss on that. So, if you stick it out, stick your plan, you'll see that your investments can actually grow over time and persist through these tough times.

(20:53):
A perfect example I'll leave you with is during COVID, we saw the market fall by 21% in March 2020 alone. Now, over the course of 2020, the market only fell by 1.5%, and then the year after, it lifted by 13%, and now, our market is roughly 90% higher than it was during the lows of COVID. So, if that's not a perfect example of your investments growing over time and sticking out through the tough periods, I don't know what is.

Jacinta King (21:22):
That's a really good example of time in the market is what matters. Listen, if you've enjoyed listening to Laura's insights and would like to know more about CommSec, head to the website and look for market news and their education pages. You can catch Laura, I mentioned every afternoon, she delivers their market close report. And of course, Tom Piotrowski, he delivers the morning market open. So that's a great one if you are really keen to hone your skills and keep across on a more regular basis. Laura Besarati, we really thank you for joining us today. Thanks for your time.

Laura Besarati (21:58):
Thank you very much, Jacinta.

Jacinta King (22:00):
And thank you as always to our listeners. If you liked this episode, please share and tune in again next month to The Ideas Exchange.

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