

Is it Worth for Brazilians to Invest in ETFs in South Korea?

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South Korea presents a rare combination of stability and rapid economic growth, attracting international investors seeking higher returns. The country boasts the 10th largest economy in the world, valued at \$1.6 trillion. South Korea's economic fundamentals are solid, ranking 9th in global trade volume in 2020 and holding the 8th largest foreign exchange reserves as of July 2021 (International Trade Administration U.S. Department of Commerce, 2021). Despite the challenges posed by the COVID-19 pandemic, the Organisation for Economic Co-operation and Development (OECD) projected 4% economic growth for South Korea in 2021. This favorable environment enhances its attractiveness for investment, particularly in the equity market through Exchange Traded Funds (ETFs).

ETFs in South Korea, such as the Korea Composite Stock Price Index (KOSPI) or the MSCI Korea 25/50 Index, are appealing options. ETFs are special investment funds that replicate the performance of stock market indices, offering a diversified basket of shares, unlike traditional investment funds. In Brazil, for instance, buying an ETF means acquiring a set of stocks rather than individual shares like Petrobras (PETR4.SA) or Itaú (ITSA4.SA). Investors can purchase ETFs through platforms like "Home Broker" by entering the ETF's code to buy a preferred set of shares.

ETFs mirror the strategies of stock market indices. For example, when the KOSPI or BOVA11 indices increase or decrease, the ETF tracking those indices will experience corresponding gains or losses. This simplifies portfolio management for investors, as exemplified by the KOSPI 200 ETF, which closely follows the performance of the KOSPI index, listing 200 of South Korea's largest companies, with a focus on the technology sector. If the KOSPI index rises by 2%, the KOSPI 200 ETF will typically see a similar increase.

Several South Korean ETFs have outperformed Brazilian ETFs like BOVA11, including the iShares MSCI South Korea Index ETF (EWY), Direxion Daily MSCI South Korea Bull 3X Shares ETF (KORU), and Franklin FTSE South Korea ETF (FLKR). The largest ETF in South Korea is the iShares MSCI South Korea ETF (EWY), with approximately \$6 billion in assets. The best-performing ETF in South Korea last year was KORU, with a return of 37.91% (Yahoo Finance, 2021), while the newest entrant,

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Franklin FTSE South Korea ETF (FLKR), launched in 2017, has garnered \$65.02 million in assets (Franklin Templeton, 2021).

But why are these ETFs considered more favorable than BOVA11? The KOSPI index surged 30.8% in 2021, marking its highest annual jump in over a decade. The iShares MSCI South Korea ETF (EWY) grew by 38.4% in 2020, surpassing the cumulative gains of the S&P 500 in the U.S. Additionally, FLKR provided a 29.7% return last year and an annualized return of 8.9% over the past three years (Imbert, 2021). In contrast, BOVA11 posted a modest 2.92% increase last year, and while it allows for securities lending, this primarily benefits large investors due to high commission fees. In South Korea, however, Shinhan Financial Investment, part of the country's second-largest bank, offers peer-to-peer (P2P) securities lending via blockchain, making the process cheaper and more accessible for smaller investors.

For short-term returns, EWY and KORU appear to be the best options. KORU, for instance, is a more aggressive one-day bet on South Korean stocks, aiming to provide 3x the performance of the MSCI Korea 25/50 Index. However, it rebalances daily, and over extended periods, this can lead to significant deviations from expected returns. Both ETFs demonstrate high liquidity and above-average returns in emerging and developed markets. For long-term investors, FLKR offers an attractive option due to its low expense ratio, providing direct access to South Korean equities at a competitive cost, with stable market performance over the past year.

Finally, South Korean stocks, as measured by the MSCI Korea Index, outperformed the broader U.S. market over a 12-month period, delivering a total return of 48.3%, compared to the S&P 500's 36.2% as of August 5, 2021 (Investing, 2021). Given these metrics, South Korea's stock market presents a more favorable opportunity for returns compared to the U.S. or Brazil's leading markets.

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