Getting started in US shares

Everything UK investors need to know about investing in US stock markets

Stockopedia

Getting Started in US Shares

Everything UK investors need to know about investing in US Stock Markets

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INTRODUCTION

> "Though we invest abroad as well, the motherload of opportunity resides in America." **Warren Buffett**, February 2014 Letter to Shareholders

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When we first published this e-book we began our introduction with the following caveat: "Of all the times to be launching an investment research service on US stocks, the tail of a five year bull market may seem like the worst." That was in 2014.

Fast forward nine years and it has become clear that 2014 was not the tail of the bull market at all - more of an interim period in the longest bull run in US stock market history, which came to a surprisingly sudden end in early 2020. On 11 March that year the Dow Jones Industrial Average closed at 21,200 points, 20% off its all-time closing high, marking an important milestone. For the first time in more than a decade, the Dow Jones was in a bear market.

Most readers of this guide will know all about the events which lead to that momentous occasion. Lockdowns in place and a deadly virus sweeping the world at a pace which sent world leaders into panic (and in some cases manic) mode. But what is perhaps more extraordinary is the tale of the US stock market since then. Because, while writing this in 2023 we now know that the 2020 bear market was really just a blip. By the end of 2020, the Dow Jones Industrial Average had recovered all of its early year losses and it has continued to go from strength to strength. Today it is once again fast approaching all time highs.

And so the quote from Warren Buffett's 2014 letter to shareholders still holds true today:

> "I have always considered a 'bet' on ever-rising U.S. prosperity to be very close to a sure thing. Who has ever benefited during the past 237 years by betting against America?"

As we'll see, the US with its scale, stability and dynamism provides an unprecedented platform for corporate growth. By extending Stockopedia.com's coverage to US markets, UK investors can for the first time research the breadth of opportunity in American companies from the comfort of a home grown quality research platform.

To help UK investors get started in US stocks we've put together this guide, which explains:

- Why the US is such a perfect hunting ground for stock market investors;
- How to navigate US stock market jargon, exchanges & indices;

- A guide to fees and forex when investing using your ISA, SIPP or brokerage account;
- Tax implications when investing in US stocks;
- A guide to choosing a broker;
- Helpful links to content sites and resources to get you started.

Part 1: Why?

Why consider the US at all?

A typical day for so many in the UK is filled with moments spent with famous American brands. Apple, Colgate, Gillette, Starbucks, Google. British household names like Tesco and Barclays consistently fail to penetrate the USA, yet the Americans seem to have no such trouble coming the other way.

Why are so many extraordinarily successful businesses born in the USA? The answer lies in a remarkable set of qualities that make America the perfect environment for incubating, nurturing and growing outstanding corporations - scale, stability and dynamism.

1. The US has *scale*

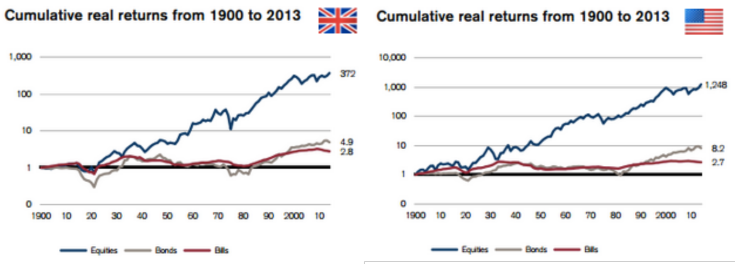
The US is the world's biggest marketplace, where companies are free to grow across all 52 states with very few limitations. A population of 330 million consumers under a common legal and regulatory framework provides an ideal platform for companies to scale their operations. Meanwhile the wealth of those citizens - with the fourth highest median household income in the world - offers a substantial profit opportunity.

Investors that have read growth investing classics like Peter Lynch's 'One up on Wall Street' or Jim Slater's 'Zulu Principle' will understand the power of business models that can be 'cloned'. When a company hits on a repeatable formula - whether through e-commerce, retail store formats or franchised operations - it can expand quickly, benefiting from centralised distribution and production costs. And of course, the bigger and wealthier the nation, the better.

In the UK, we've seen chains like Majestic Wine and Restaurant Group grow successfully through cloning. But with a population five times larger than the UK, US franchises can take this model to another level. The three dots on the logo of Domino's Pizza (NYSE:DPZ) represent the three stores that were open in the US in 1969. 20,000 owned and franchised Domino's stores worldwide show the power of such a platform.

With great scale comes great returns

For investors, there is a read-across between the great scale opportunity enjoyed by US firms and the scale of stock market returns over time. Compare the UK and US markets and the difference in performance is staggering: by 2014 the American stock market had produced a return that is more than three times greater than in the UK:



Source: Credit Suisse Global Investment Returns Yearbook 2014

That performance difference has been even more stark in recent years. From the end of the financial crisis in 2009 to 2023 (at the time of writing), the Dow Jones Industrial Average grew by a factor of four, while the FTSE All Share barely doubled.

2. The US has *stability*

The cornerstones of economic and market stability in the US are the country's regulators - the Federal Reserve and the Securities and Exchanges Commission. Between them, these bodies promote an environment where businesses can thrive and investors can feel safe.

For 110 years, the US economic system has been overseen by the Federal Reserve, the country's central bank. Apart from setting monetary policy, the Fed oversees American banks and has a remit to maintain stability throughout the financial system. Its Chairman is the most influential person in the global markets. If he or she cuts or hikes interest rates, or announces increases or decreases in 'quantitative easing' don't bet against them! "***Don't fight the Fed***" is a mandatory tactic in US markets.

Responsibility for overseeing US stock markets and financial services lies with the **Securities and Exchange Commission (SEC)**. Created in the wake of the 1929 stock market crash, the SEC is heavily focused on protecting investors. Apart from providing investment education through its website, it also publishes the financial reports and information updates that US quoted companies are required to issue.

Beyond the SEC is the **Financial Industry Regulatory Authority (FINRA)**, which is a non-governmental body that oversees the activities of more than 4,140 securities firms. FINRA writes and enforces the rules governing brokers, takes action against wrongdoing and runs investor education services.

While the credit crunch may have put America's economy to the test, doubting the resilience of the USA and its policy-makers is a foolhardy venture. Warren Buffett put it like this:

> "In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

Legal and financial stability

In his famous book *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Hernando de Soto showed how the success of nations is rooted in their legal structures and the enforcement of property rights. America's pro-business legal frameworks can be seen in its rigorous regime of physical and intellectual property rights. Not only is the US a world leader in research and development expenditure, it's the prime destination for foreign firms seeking safety from intellectual property theft. Of the 650,000 patents granted by the US Patent and Trademark Office in 2020, 53% originated from outside the US.

Meanwhile, US tax rules are growth-oriented, with many US states and cities offering tax credits and other incentives to attract global investment. More generally, US businesses have greater freedom to operate at their own discretion compared to their counterparts in Western Europe and Japan. This gives them more flexibility in decisions to expand capital expenditures, dispose of unprofitable operations and develop new products.

3. The US has *dynamism*

> "The dynamism embedded in our US market economy will continue to work its magic". **Warren Buffett**

Only in America could a startup with just a handful of staff help to destroy a Dow Jones Industrial Average giant. Yep, in America even a Kodak can get Instagrammed.

Nowhere is the power of creative destruction or the cult of the entrepreneur stronger than it is in the USA. With the most lenient bankruptcy laws in the world, there is little fear of failure, while cheap technology, strong education and a nurturing startup environment fire up the creative spirits of the young.

America's scale and stability support deeply networked entrepreneurial hubs for a wide range of industries in different regions. Silicon Valley - the global sweet spot for technology innovation - is a melting pot of university campuses, venture capital firms and migrant technology pioneers that together have helped companies like Apple, Facebook, EBay and Google grow and dramatically change the way we live our lives. Just 2,500 miles away on the east coast, New York City is home to global financial institutions and exchanges that propel businesses onto the international stage. Through innovative financial platforms, they unleash capital from those who own it to those who can use it best.

Why the US is the perfect market for investing

America's scale, stability and dynamism are crucial in stimulating an environment that rewards both entrepreneurialism and investment. But the appeal doesn't stop there. The US offers UK investors a sense of familiarity that spans language, finance and culture as well as huge markets are highly liquid, open, transparent and fair.

1. US markets are *familiar*

Few UK investors will have heard of Continental business journals like *Les Echos*, *Handelsblatt* or *Il Sole 24 Ore*, much less be regular readers. When taking one's first steps in international investing, crossing the language barrier is the first hurdle. It's a simple point, but *The Wall Street Journal* and *Investors Business Daily* make for far easier reading.

But it's not just the language. The USA is the most culturally similar of our neighbours. Peter Lynch's advice to *"invest in what you know"* is easier to carry out when you are familiar with a company's brands and its reporting and accounting standards.

Whenever you do get the itch to buy a great brand, just make sure it has the right investment attributes - well followed stocks often lead to average investment returns. A shortcut to identifying stocks with sound fundamental and/or technical backing is to use the Stockopedia StockRanks which measure every stock's Quality, Value and Momentum. To learn more about the power of the StockRanks read up on the website or watch our recent webinar.

2. US markets are *open*

"When America sneezes, the world catches a cold."

The bedrock of America's economic philosophy is that markets are free and open without without fear of hindrance or tinkering by central bankers. The concept of capital controls - rules governing the movement of money into and out of the economy - is unthinkable.

The same can't be said for many other economies around the world, where restrictions are applied to control sudden incoming or outgoing foreign investment flows. During the economic crisis, when western governments pumped money into their own economies, nations like Brazil, Korea and Indonesia responded with capital controls. These measures aimed to protect financial stability and exchange rates but they also damaged the confidence of investors.

World’s reserve currency

The US dollar is regarded as the world’s reserve currency because it’s widely held by foreign governments. As a result, action taken by the Fed can have far reaching consequences for the global economy.

3. US markets are *transparent*

UK investors are well versed in some of the frankly unfair practices that occur from time-to-time in the City of London. Issues like the unfair distribution of price-sensitive information, closed-door analyst briefings and restricted access to discounted share placings all rile individual investors.

In the US, a traditionally hands-off approach to market regulation hasn’t stopped policy makers from cracking down on wrongdoing and fixing problems when they arise.

- Among the hardest hitting of recent measures was the **Dodd-Frank** act of 2010, which introduced wholesale changes to financial sector regulation following the financial crisis.
- In the early 2000s, a series of accounting scandals involving Enron, Tyco International and WorldCom, among others led to the introduction of the **Sarbanes-Oxley** act. This forced company executives to certify the accuracy of accounts and introduced strict penalties for fraudulent activity.

- **Regulation Fair Disclosure** was introduced in 2000 to ensure that companies disclose all price sensitive information to all investors, large or small, at the same time. 'Reg FD' has brought greater transparency to information flow.

4. US markets are *fair*

Investors in the UK and US take it for granted that they can invest safely knowing their property rights are respected, but in many foreign countries this is simply not the case.

Investors in Spanish oil giant Repsol found this out to their cost in 2012 when Argentina's government unexpectedly seized its controlling interest in energy firm YPF. Repsol eventually accepted $5bn compensation for the move, even though the assets were previously valued at $10.5bn.

US authorities have also shown an appetite for pursuing those alleged to have been behind market abuse and insider trading. In recent years, individuals at hedge funds including Galleon Group and SAC Capital have been pursued and convicted for insider trading.

5. US markets are *liquid*

As of July 2023, the total market value of companies listed on the NYSE and Nasdaq was $47 trillion, compared to just $3.6 trillion on the London Stock Exchange. These vast trading volumes create unparallelled deep liquidity that makes it much simpler for investors to trade shares in the US. With so many more buyers and sellers around, investors can enter and exit positions with ease.

Deep liquidity also translates into spreads on US shares (the difference between the 'bid' and 'offer' quotes) that are much tighter than in the UK. Wide spreads are the scourge of UK investors because they lead to the unpalatable fact that shares have to be bought at an immediate loss. By comparison, much higher trading volumes in the US force brokers to compete fiercely on price, which narrows the spreads and makes trading cheaper.

Not all US shares are highly liquid!

Stocks on the main NYSE and Nasdaq markets are highly traded and attract narrower spreads. But smaller companies, particularly those traded 'over-the-counter', may suffer from thin liquidity so it pays to keep an eye on trading volumes.

6. US markets are *deep*

With more than half of the US population invested directly in stocks, it should come as little surprise that data, analysis, press reports and commentary are plentiful in the US. As Peter Lynch wrote in 1989, *"the financial weather is followed as closely as the real weather"*.

Research has suggested that around 75% of NYSE stocks receive press coverage during a typical year, while 42% of Nasdaq stocks are mentioned in the media. So if investors do want to explore the qualitative factors driving share prices, there is a sea of media coverage to explore.

Be careful with news!

Financial news coverage can be useful to investors, but care is needed. Commentary and gossip can create a sense of euphoria or depression which causes volatility and leads to shares becoming under or over valued. Research by Kim and Meschke suggests that company share prices tend to appreciate by around 1.6% on the day a CEO is interviewed by CNBC, before reverting by 1.1% over the following ten trading days.

Why should you invest abroad at all?

> "To avoid having all your eggs in the wrong basket at the wrong time, every investor should diversify. If you search worldwide, you will find more and better bargains than by studying only one nation." **Sir John Templeton**

Harry Markowitz, a pioneer of modern portfolio theory, once described diversification as the only free lunch in finance. By investing across geographies and asset classes, it is possible to reduce risk *and* improve returns. Even so, investors often shun foreign shares - a behaviour that has baffled academics for decades and become known as the *'equity home-bias puzzle'*.

Explanations for the puzzle range from investor fear of higher costs and the hassle of investing abroad to the fact that people simply like sticking to what they know. In the UK 64% investors with at least Â£60,000 in their portfolio have more than a quarter of their assets in the domestic stocks. That's despite the fact that London accounts for less than 10% of the world's total stock market value. Americans suffer from home-bias too, but have less to worry about given that US stocks account for a stunning 60% of the global equity market value.

On paper, UK investors look particularly exposed to the vagaries of the domestic economy. But many don't see it like that. They point to the fact that London is a popular destination for large international stocks to list, and that many UK-quoted companies earn large slugs of revenue from foreign markets. The precise figures vary, but last year our research found that ten FTSE 100 companies generate more than half of their sales from the US, and more than two thirds comes from outside the UK.

Despite the apparent natural diversification in UK-quoted blue chips, research by MSCI Barra shows that a UK-focused large-cap investing strategy produces a very concentrated portfolio with significant asset-specific risk. In other words, those shares with high levels of foreign exposure tend to be bunched together in the same sectors.

Evidence of this concentration can be seen in some of the reporting and dividend payouts made by FTSE 100 stocks. According to Capita Asset Services, companies in the mining and energy sectors - which deal in commodities priced in dollars - are responsible for over a quarter of UK dividends.

International exposure is essential

So the case for diversifying away from the UK is clear. UK stocks are exposed to British economic and market forces, while foreign stocks offer exposure to a more diverse range of factors. Academic literature also suggests that international stock markets are less closely correlated - some zig when others zag. What makes the US so attractive is the wide range of stocks listed on American exchanges.

Just take a look at recent market performances: in the year to date (September 2023), the S&P 500 has risen by 14%, while the

FTSE 100 has managed just 1.65%.

So, UK investors need to take note - a strategy that ignores US equities excludes more than half of the global opportunity set. It also cuts out a market with a magnificent record of producing strong returns. Given the benefits of spreading risk through sector and geographical diversification, it's remarkable that many UK investors remain coy about it. In the context of America's broad appeal, there is very little reason why UK investors shouldn't be looking to the US to broaden their horizons.

Part 2: What?

Many of the world's most successful investors have made their fortunes in the United States but as a wise man once said, "*A fool and his money are easily parted*". So before setting off on a transatlantic journey to the land of Buffett, Graham and Greenblatt it's vital to get some initial bearings.

What you need to know about US Stock Exchanges

Unlike in the UK where the London Stock Exchange handles the majority of equity listings, the US is home to several trading venues. The most famous are a pair of titans - the New York Stock Exchange and the Nasdaq - the two biggest stock exchanges in the world. But the US also has a number of regional exchanges and several 'Over the Counter' exchanges (OTC) where intrepid small-cap investors can regularly be found mining for hidden gold.

The aggregated data in the table below shows the current universe of US coverage we have at Stockopedia across the three main venues of trading. It's clear from the table that analyst coverage is not as deep amongst the OTC exchanges as on the NYSE and Nasdaq exchanges. The good news is that we rank a 6254 US stocks for their combined level of quality, value and momentum in our proprietary StockRanks on each exchange.

Market	No. of Stocks	Analyst Estimates
NYSE	1965	85.3%
Nasdaq	3179	76.1%
OTC	1114	7.8%

**Data accurate as of 26th September 2023.*

New York Stock Exchange

Known as '*the Big Board*', the New York Stock Exchange (NYSE) is easily the world's largest stock market in terms of capitalisation - with a colossal value of nearly $25,000,000,000,000. That's a lot of zeros. It is a bountiful hunting ground for investing in some of the world's biggest, prestigious and most profitable companies. Global names like Nike, Ford, Johnson & Johnson and Walt Disney are all here. So whether you've worn it, driven it, washed in it or watched the movie - the NYSE is where you can invest in it all.

Investors can take comfort from the fact that any company wanting to list on the NYSE must pass strict initial and ongoing listing requirements that test for size, liquidity and fundamentals. As a result, a listing on the NYSE is generally regarded with huge esteem in the corporate world.

Unlike the London Stock Exchange (LSE), the NYSE is an auction based exchange. Until very recently traders, known as '*specialists*', had to be physically present on the trading floor to provide quotes in an open auction. But recent years have seen something of a shake-up and modernisation at the NYSE. Much of the trading volume is now processed through an electronic order book and distributed across other regional and proprietary trading venues. All these trades though are 'consolidated' into the overall NYSE quote which we publish on Stockopedia.

The NYSE is owned by Intercontinental Exchange Inc, which also runs a number of equities, options and futures exchanges. Among them is the small-cap growth company focused **NYSE MKT** (formerly known as the American Stock Exchange) and a trading venue for Exchange Traded Funds (ETFs) called the **NYSE Arca**.

You can identify and filter for stocks and ETFs trading on NYSE exchanges by their exchange codes in the Stockopedia Directory. *NYQ* for the NYSE, *ASQ* for the NYSE MKT, and *PCQ* for NYSE Arca. These codes also appear in the web page links prepended to company tickers - for example *NYQ:F* is the code & ticker for *Ford*.

Stock exchange trading hours and holidays

The NYSE is open from Monday through Friday 9:30am to 4:00pm ET. NYSE Arca is has an opening session from 4:00am to 9:30am ET and extended trading from 4:00pm to 8:00pm ET.

New Years Day (January 1) Martin Luther King, Jr. Day (Third Monday of January) Washington's Birthday (Third Monday of February) Good Friday Memorial Day (Last Monday of May) Independence Day (July 4) Labor Day (First Monday in September) Thanksgiving Day (Fouth Thursday of November) Christmas Day (December 25)

NASDAQ

It wouldn't be America if there wasn't a serious competitor lurking around every corner. In the UK the London Stock Exchange has a virtual monopoly on equity listings, but the US is home to a second vast stock exchange - the Nasdaq (*National Association of Securities Dealers Automated Quotations*).

It was set up in 1971 as an electronic trading platform connecting dealers remotely away from an exchange. In contrast to the NYSE - Nasdaq dealers didn't need to be physically on the auction floor. This arrangement lowered the spread from which the brokerage industry had long profited and fuelled anger amongst traditional brokers.

Perhaps as a result of this electronic distinction, Nasdaq became home to many of the world's most famous technology companies such as Apple, Microsoft and Google. But the market really rose to fame during the 1990s dotcom boom when the hot stocks of the day like Yahoo, Ebay and Doubleclick shot to the moon and back.

There are three tiers to the Nasdaq…

- **Nasdaq Global Select Market**: Large cap firms which meet the exchange's strictest financial and liquidity requirements.
- **Nasdaq Global Market**: Companies listed here are generally mid cap and the financial and liquidity requirements are less severe than the Global Select.
- **Nasdaq Capital Market**: Small caps list on this exchange. Listing requirements are again more relaxed.

You can identify and filter for stocks trading on Nasdaq exchanges by their exchange codes in the Stockopedia Directory. *NSQ* for the Nasdaq Global Select, *NMQ* for Nasdaq Global, and *NAQ* for Nasdaq Capital.

Most UK brokers deal in Nasdaq and NYSE equities which can generally be held in an ISA or SIPP, although this may vary from broker to broker.

The OTC Exchanges

When a stock no longer qualifies for the stringent ongoing listing requirements of the main national exchanges (due to deteriorating share price or quality), where does it go? In the US it will often end up joining the many thousands of stocks that trade 'over the counter' (OTC).

If that sounds a bit suspect, well it often is. Jordan Belfort, the Wolf of Wall Street, made much of his money pushing these kinds of stocks onto unsuspecting victims. The 'low or no' listing requirements and the opaque nature of 'OTC' stocks make them perfect for pump and dump fraudsters to manipulate. One regularly finds that these stocks trade for less than a dollar per share, have tiny market caps and have wide differences between the 'buy' and 'sell' price (known as the spread).

But don't be completely put off, there *are* good companies amongst the bad - you just have to know how to pan for the gold, which is where a really good stock screener can help. OTC companies include highly regarded international corporations like Adidas and Roche who may use the OTC market as a way of gaining exposure to US investors without having to meet the full listing requirements of the main exchanges.

The two main operators of OTC exchanges are the OTC Markets Group, a private company, and the OTC Bulletin Board, which is owned by Nasdaq. While the two markets compete for the trading rights of all these equities, you will find that Nasdaq provides quotes for a number of the higher quality stocks on

OTC Markets. OTC stocks that are not quoted on either of these exchanges are traded in so-called grey markets.

You can identify and filter for stocks trading on the OTC Exchanges by their exchange codes in the Stockopedia Directory. *OTC* for OTC Markets, *PNK* for OTC Pink, and *OBB* for OTC Bulletin Boards. Just **remember to check the fundamental timeliness**, **audit quality** and **the bid-ask spread** of all stocks before making investment decisions.

OTC Markets Group Exchanges

OTC Markets group uses the electronic quote system OTC Link, which is is regulated by the SEC. Due to the notoriety of OTC stocks it has a categorisation system to help investors separate the wheat from the chaff.

- **OTCQX** is the gold tier and lists many multinational companies and US growth stocks which must pass various tests to be listed including having a investment firm as sponsor.
- **OTCQB** is the next tier down which requires a minimum bid price and an annual certificate to verify company accounts, reports, shareholders and PR firms.
- **OTC Pink Sheets** is the Wild West. There are basically no standards or requirements - there are further tiers here which categorise financial reporting timeliness but buyer beware.

OTC Bulletin Board

OTCBB requires all companies to file financial statements with the SEC (or a banking or insurance regulator), but even so most stocks are barely traded microcaps. The exchange is driven by quotes entered by participating dealers, but has suffered with the rise of the OTC Markets platform. Many stocks are traded at both venues.

Not all UK brokers will trade 'OTC' stocks, and those that do may insist on more expensive telephone broking to execute trades. The main brokers often make it quite difficult to hold them in ISAs and SIPPs but sometimes it's worth persisting.

Understanding ADRs

An American Depositary Receipt (ADR) is a security that represents ownership of shares in a company that is foreign to the market on which the DR trades. It follows that an American Depositary Receipt (ADR) is a security that is denominated and pays dividends in US dollars, even though the security represents ownership of shares in a non-US corporation. ADRs are traded on the NYSE, NASDAQ and AMEX, or traded over the counter like regular shares of stock.

Over 2,000 non-American companies from over 70 countries are traded in the US through ADRs. ADRs therefore enable British investors get exposure through US stock exchanges to a large number of continental and emerging market companies, while at the same time gaining the benefits of protections and transparency offered by US securities regulations.

What you need to know about US indices

When it comes to tracking UK stock markets and sectors, the well known FTSE indices - ranging from the FTSE 100 to the Techmark 100 - have a dominant position. But in the US there is a wider range of indexing groups that battle it out for the attention of investors seeking ‘benchmarks’.

The Dow Jones Industrial Average

One of the most renowned US indices - the Dow Jones Industrial Average- boasts a rich history that spans over a century. It consists of just *30 major stocks* including blue chip bellwethers like Goldman Sachs and Procter & Gamble.

The make-up of the Dow is not decided with transparent rules but rather on the consensus of an ‘Averages Committee’. Changes to the index are extremely rare, newsworthy events. The committee chooses companies of excellent reputation, sustained growth and broad investor interest.

Unlike many other indexes, the Dow is *price-weighted*, which means that each company is given a weighting based on its stock price, rather than its market capitalisation. For this reason, many serious market observers consider it something of a relic; its constituents being unrepresentative of the wider economy and its price-weighting making it hard to track with institutional funds. Nonetheless it remains the most quoted of all the indices in the media and has to be watched.

The 'Dow Theory' is a legendary technical analysis strategy. It partially relies on the Dow Industrial and Dow Transportation indices 'confirming' each others moves. Do check out the most famous current Dow Theory writer Richard Russell.

Standard & Poor's indices - the S&P 500

Any UK investor wanting to keep an eye on the biggest stocks in the US need look no further than the S&P 500. This big beast of an index is one of the best known in the US and widely regarded as a barometer of the overall stock market.

The S&P 500 is a *market capitalisation weighted* index of the 500 largest companies traded on the NYSE and Nasdaq. Its giant scale means that trillions of dollars are benchmarked against it in both passive index trackers and actively managed funds.

Other S&P indexes include the mid-cap S&P 400 and small-cap S&P 600. Together with the S&P 500 they constitute the S&P Composite 1500. Many also follow the S&P 900 of mid and large caps. Each index is rebalanced quarterly after the market closes on the third Friday of the quarter-ending month.

The Nasdaq Composite & Nasdaq 100

The Nasdaq Composite - '*the Nasdaq*' , is a market capitalisation-weighted index that includes every stock on the Nasdaq stock exchange. The Nasdaq is highly followed in the US and generally regarded as a performance indicator for technology stocks. In addition, the Nasdaq 100 is a bellwether index of the 100 largest US and international non-financial Nasdaq stocks based on market capitalisation. The index is rebalanced quarterly.

The Russell Indices

While the S&P 500 is the main benchmark for large caps, one of the best known benchmarks for US small caps is the Russell 2000. The index is run by Russell Investments, which was acquired in 2014 by The London Stock Exchange Group plc. The stocks in this index represent around 10% of the overall market capitalisation of the larger but less well known Russell 3000 index. While the index is defined as 'small cap', UK investors should note that the median market cap in the Russell 2000 is around $922 million (£814 million). The index is completely reconstituted annually.

The Wilshire 5000 Total Market Index

The Wilshire 5000 is the broadest index covering the US stock market and includes all US securities with available price data.

It doesn't include bulletin board stocks or ADRs (American Depository Receipts). The index is market-cap weighted and its composition is reviewed monthly. Changes are made after the close of trading on the third Friday of the month and are pre-announced by the second day prior to the implementation date.

Stockopedia provides a growing range of quotes & price histories for the major American indices including the major S&P and Nasdaq indices. Beyond that we provide aggregate median and mean ratio analysis for major indices. Check out the Stockopedia Directory for more information.

What you need to know about company reporting

As mentioned earlier, the USA has one of the most open and transparent stock markets in the world. The SEC does a comprehensive job of laying down reporting guidelines and rules. But it can seem slightly foreign to us UK investors with all the cultural nuances, unfamiliar terminology, reporting language and filing codes. Let's dig in.

How to track company reporting

Q) Where can company reports be found?

The flow of market sensitive information in the UK is mostly handled by the London Stock Exchange via its "RNS" Regulatory News Service. In America, company reports can be found in one place through EDGAR (*Electronic Data Gathering of Annual Returns*). These are made available to all-comers by the SEC for free - frankly the UK has a lot to learn from the US.

Since Edgar was fully launched in 1996, the SEC has been pursuing the use of XBRL (an offshoot of XML computing language) as a way of digitising financial statements. XBRL will over time make financial reporting faster, and allow market participants to react more quickly to financial statement releases.

Q) How often do US companies report financial statements?

In the UK, companies are obligated by the Financial Conduct Authority (FCA) to report their financials at least twice a year as annual results and interim results. By contrast, the US Securities and Exchange Commission (SEC) requires corporations to report *quarterly* - every three months.

There are no fixed rules on when quarters must fall, but most companies have financial years that run from January to December. Quarterly reports are therefore frequently released in batches during 'earnings season' which starts roughly two weeks after the end of December, March, June and September.

Earnings season is a *huge* event in the US, far bigger than in the UK, and it gets wall-to-wall coverage in the financial media. Company executives can become heroes or villains on the back of their updates. The same goes for Wall Street's army of analysts, who rush to predict and digest the latest filings.

UK investors may already be familiar with quarterly reporting because some British companies produce financial results that meet US standards. Usually, these companies are either dual-listed in both the UK and US markets, or have issued American Depository Receipts (effectively $ denominated bundles of foreign listed shares).

Q) What are the key financial statements?

While in the UK we are used to company results in interim, preliminary and final results, the most important company filings in the US have rather arcane alphanumeric characters. Don't let that put you off - they are easily decoded as follows:

- **10-K** filings - These are annual financials which must usually be filed no later than 60 days after its financial year-end.
- **10-Q** filings - These are quarterly financials which must be filed within 40-45 days of each quarter-end. 3 per year.
- **8-K** filings - US companies are also obliged to inform the SEC of other events like bankruptcies, acquisitions and board changes using an 8-K.

Stockopedia publishes StockReports for almost 10,000 US stocks. Balance sheets, cashflow and income statements are published both in annual and quarterly time series in a standardized fashion allowing for easy comparison between different stocks.

How to track company ownership changes

Q) How can I track key insider deals?

You can monitor **insider transactions**, or **director dealings** data on Stockopedia. We give you the scoop on what's happening with company directors and insiders buying and selling stocks through our accounts tab on each StockReport page.

It's a smart move for investors to keep an eye on these transactions. It can provide a sense of confidence to see that company management has a vested interest in the business's performance. When directors make big moves, either buying or selling, it can send a strong message to the market.

NVDA Director Deals

Director Dealings made by **NVIDIA** directors are listed here. All directors of publicly listed companies are required to disclose their transactions in their company shares including **NSQ:NVDA**. These *insider deals* should not be confused with *insider trading*.

Date	Director	Type	Volume / Price	Value	% Held
Sep 20, 2023	C. Kress	SELL	8,919 @ $422.39	$3,767,296	0.02
Sep 20, 2023	D. F. Robertson	SELL	3,068 @ $422.39	$1,295,893	0
Sep 20, 2023	D. Shoquist	SELL	7,951 @ $422.39	$3,358,423	0.01
Sep 20, 2023	J. Huang	SELL	10,456 @ $422.39	$4,416,510	3.51
Sep 20, 2023	J. K. Puri	SELL	8,458 @ $422.39	$3,572,575	0.02
Sep 20, 2023	T. S. Teter	SELL	6,547 @ $422.39	$2,765,387	0.01
Sep 15, 2023	J. Huang	EX	118,750 @ $4.00	$475,000	3.51
Sep 14, 2023	J. Huang	SELL	29,684 @ $455.75	$13,528,346	3.51
Sep 14, 2023	J. Huang	EX	29,684 @ $4.00	$118,736	3.51
Sep 13, 2023	J. Huang	SELL	59,376 @ $452.99	$26,896,437	3.83
Sep 13, 2023	J. Huang	EX	59,376 @ $4.00	$237,504	3.83
Sep 12, 2023	D. Shoquist	GIFT	10,000 @ $0.00	$0	0.01

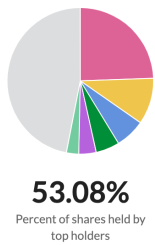
Equally, you can always **keep an eye on Form 3 and Form 4 filings**. In the United States, a broader group of company insiders (including directors, officers, and 10% owners) must report their initial ownership using Form 3 and any subsequent changes in ownership using Form 4 within two business days following the transaction.

Q) How can I track major shareholder deals?

At Stockopedia we also provide up to date information on **major shareholder data**, so that investors can assess influence, gauge market sentiment, and align their interests with key shareholders in any given company.

We highlight *(up to)* the **top 10 major shareholders of each security**, plus the change in holding since the holder's previous reporting date, ensuring you have the latest insights at your fingertips.

Shareholder	Report date	Holding	Change	% Held
Berkshire Hathaway Inc. Insurance Company	Jun 28, 2023	219.5m	7.8m	24.44
Dodge & Cox Investment Advisor/Hedge Fund	Mar 31, 2023	92.2m	-801.2k	10.26
↪ Dodge & Cox Stock Fund Mutual Fund	Jun 30, 2023	60.3m	-277.5k	6.71
The Vanguard Group, Inc. Investment Advisor/Hedge Fund	Mar 31, 2023	59.1m	-1.6m	6.58
↪ Vanguard Total Stock Market Index Fund Mutual Fund	Jun 30, 2023	20.8m	1.2m	2.32
↪ Vanguard 500 Index Fund Mutual Fund	Jun 30, 2023	17.1m	131.8k	1.90
State Street Global Advisors (US) Investment Advisor/Hedge Fund	Mar 31, 2023	46.9m	-1.8m	5.23
↪ Energy Select Sector SPDR Fund Mutual Fund	Jun 30, 2023	19.0m	-1.9m	2.11
BlackRock Institutional Trust Company, N.A. Investment Advisor	Mar 31, 2023	34.5m	-1.6m	3.84
Fidelity Management & Research Company LLC Investment Advisor	Mar 31, 2023	24.6m	-2.8m	2.73
Others				46.92



Equally, you can pay attention to **13F and 13D filings**. 13F filings are crucial for discovering which institutional money managers hold specific stocks. Institutional funds managing over $100 million in investor assets must report their holdings to the SEC within 45 days after each calendar quarter, and this information is readily accessible on the SEC website. On the other hand, the 13D form reveals when any holder acquires a stake exceeding 5% in a company.

Jargon Busting the USA for UK investors

> 'We have really everything in common with America nowadays except, of course, language'. **The Canterville Ghost**, **Oscar Wilde**

Investors in the stock market have a really raw time. Financial jargon often seems to use different interchangeable terms for exactly the same thing - income, profits, earnings - which is which, which do you use, where?

Penetrating this lexicon is hard enough without having the stress of trading US markets to deal with. But do persevere, with a little time and effort it will all start to make sense. We've put together a very brief guide, so let's dive right in…

Some basic differences

Please excuse us if we are teaching grannies to suck eggs… but here goes:

- **The City vs Wall St** - These terms shouldn't really need to be introduced but they do act as general labels for anything related to financial markets on each side of the pond. As is typically the case with all things American, we need an entire British city to match a single US street! It's not unusual to hear: "In the City the FTSE 100 closed down 25 points at… " or "On Wall Street traders celebrated an unexpected interest rate cut by…", but of course you knew that already.

- **Shares vs Stocks** - In the UK, almost all terminology for equity ownership relates to the term *share*, whereas for some reason in the US it's all about *stocks*. Where UK investors would refer to *Ordinary Shares*, Americans will refer to *Common Stock*. We have *Shareholders*, they have *Stockholders*. *Share Prices* vs *Stock Quotes*. You get the drift. Just to mix matters up a bit, the Brits trade shares on the London *Stock* Exchange, and in fact historically many government bonds were called stocks. We've even heard of a UK shares website called **Stock**opedia with some nifty **Stock**Ranks. Confusing eh?
- **Small vs Micro** - Everything in America is bigger. The bagels are big, the burgers are huge and the stocks are enormous. As a result there's a lot of inflation in how American's classify their stocks. In the UK we consider small-caps to be anything under a market capitalisation of £350m, but in America anything under $1bn is thought of as a micro-cap. Paul Scott might find himself quite baffled! Here's how the bands of stocks relate:

Capitalisation Band	**UK Terminology**	**US Terminology**
MegaCap	-	> $100bn+
Large Cap	> £2bn (FTSE 100)	< $100bn
Mid Cap	< £2bn (FTSE 250)	< $10bn

Capitalisation Band	UK Terminology	US Terminology
Small Cap	< £350m	< $2.5bn
Micro Cap	< £20m	< $100m

- **Directors vs Insiders** - While insider trading is something that gets you jailed in the UK, in the US it's a term for what we know as **Director Dealings** in their own shares. Company **Insiders** are more broadly defined as those that have sensitive information on a stock - from the management and board to influential 10%+ shareholders.
- **Brokers vs Analysts** - What we Brits call Broker forecasts, Americans call Analyst Estimates. At Stockopedia we prefer the term '**Analysts**' because the City (and Wall St) have evolved to the point where there are increasing numbers of independent research houses like Edison Investment Research. Brokers have been cutting back research departments for years and it's not inconceivable that one day independent research houses may dominate. Some of the UK vs US terminology around forecasts differs too, including:
  - **Broker Upgrades vs Recommendation Changes** - when company analysts upgrade their recommendation on a stock.
  - **Profit Upgrades vs Earnings Revisions** - when company analysts revise their EPS forecasts for a stock.
  - **Beating Expectations vs Earnings Surprises** - when a company announces profits that are ahead of consensus forecast.

The Tower of Babel

The mixup in financial statements terminology is enough to send anyone mad. As markets have globalised so the powers that be have tried to standardise the way companies report. The current push is for all nations to give up national accounting standards and commit to the **International Financial Reporting Standards** or IFRS.

It brings a big shift from old world lingo to modern internationally accepted terminology. Generally, UK investors have grown up on terms like stocks, debtors and creditors and we will gradually need to wean ourselves off them.

This obviously should be a really good thing for international investors, but the trouble is that the international accounting body haven't got the USA to agree, and the UK is still a way off a full implementation.

As a result we have to deal with something called "*Generally Accepted Accounting Principles*" for each market - or US GAAP and UK GAAP. Frankly it all feels a bit Tower of Babel. We really aren't experts on this, but a bit more familiar with the some of the mixups can really help de-jargonise the stock market.

- **Profit vs Income** - In the US most companies refer to the bottom line of an income statement as **Net Income**, while in the UK many companies refer to **Net Profit**. These terms are pretty much interchangeable and relate to the same thing - the excess earnings of a company which are owned by the company's common shareholders. Naturally it's more usual to find references to the **Income Statement** in the USA whereas in the UK one hears about the **Profit and Loss Statement** (or P&L) - both are essentially the same thing. Just to confuse matters, once the net income (profit) is divided by the number of shares in the company, investors on both sides of the pond refer to the outcome as **Earnings per Share** or EPS.

- **Stock vs Inventories** - both relate to goods being held in the warehouse and on shop shelves awaiting sale. Large growing inventories is never a good sign.
- **Creditors vs Accounts Payable** - this is the money a company owes to their suppliers. It's a liability that needs to be paid in the future - essentially other companies are providing a line of credit.
- **Debtors vs Accounts Receivable** - this is money that is owed to your company by third parties that have bought goods but not paid for them yet. Nobody likes seeing large debtors on a balance sheet… it can mean companies are selling aggressively, discounting stock or have poor credit management.

Financial ratios differences - UK vs US

Most ratios like EPS and the P/E ratio are similar all over the world, but there are others that may require translating - here's a notable few:

- **Dividend Cover vs Payout Ratio** - Culturally, UK investors like to ensure there's enough **Dividend Cover** to ensure dividends are safe (or how many times dividends are covered by profits), while US investors like to ensure the **Payout Ratio** (the percentage of profits paid out as dividends) isn't too high. Of course the payout ratio is just 1/Dividend Cover expressed as a percentage. They relate to the same thing, in topsy turvy fashion.

- **Gearing vs Leverage** - How indebted is a company? UK investors often refer to '**Gearing**' whereas US investors often refer to '**Leverage**' - these are interchangeable terms often relating to the **Debt/Equity** ratio. A Leverage ratio of 50% means that a company has half as much debt as equity. Be careful in highly geared companies.
- **ROCE vs ROIC** - we risk causing fury here as there are so many definitions of these terms and nobody agrees. Return on Capital Employed and Return on Invested Capital are (according to some) interchangeable terms for the % profit generated per pound of capital invested in a company. We won't reply to anyone who argues. :-)

Market moving events

- **Federal Reserve Announcements**: The Fed announcements are one of the most keenly anticipated events in financial markets. Think of the Fed as a conductor guiding an economic orchestra. When the Fed adjusts *interest rates*, it's like changing the tempo of the market's performance. Rate hikes can cool the economy and temper stock market enthusiasm, while rate cuts inject vitality, encouraging borrowing, spending, and investing. Investors dissect the Fed's statements for clues about future monetary policy, and these announcements often set the stage for significant market movements.

- **Economic Data**: Economic data releases act as a compass in the complex world of US financial markets. These indicators, ranging from *GDP growth* to inflation metrics like the *Consumer Price Index (CPI)*, provide vital insights into the nation's economic health. When GDP surpasses expectations, it signals a thriving economy and potential corporate profit growth. Conversely, rising inflation can raise concerns about the purchasing power of consumers. These releases not only inform trading decisions but also shape market sentiment and the broader economic narrative.
- **Consumer Confidence**: Consumer confidence serves as the emotional pulse of the US financial markets, reflecting the optimism or pessimism of consumers regarding their financial prospects and the broader economy. High consumer confidence encourages increased spending, a crucial driver of economic growth across various industries. Conversely, declining consumer confidence can cast a shadow over markets, as economic worries can lead to reduced spending, subsequently impacting corporate earnings and share prices.
- **Non-Farm Payrolls**: These are the most influential monthly employment figures in the USA. Surprises can be highly market moving so expectations are worth watching by short term traders.
- **Options Expiry**: The options market is *huge* in the USA. While in the UK those seeking leverage tend to spread-bet, in the USA there are quoted liquid options (essentially tradeable rights to buy or sell shares in the future) on

almost all major listed stocks. These options all have an expiry date, which vary in timeframes. When the options do expire there can be some quite strange price behaviour in the 'underlying' ordinary shares. Beware on these dates!

- **Whisper Numbers**: While consensus earnings estimates are very useful, they rely on third parties aggregating and updating the estimates of all the brokers. As a result the published numbers often lag the real estimates that analysts have in their spreadsheets. These are known as the *whisper numbers*, which have been found to be more predictive of earnings surprises than the consensus - IF you can get hold of them.
- **Keep an eye on the VIX**: The Volatility Index or VIX has become known as the world's primary *fear gauge*. Based upon the implied volatility of S&P 500 options it moves from being low priced in periods of calm stability to massive spikes during panics. These fearful spikes have often led to some of the biggest buying opportunities in global markets.

Part 3: How?

How to choose a broker to trade in US stocks

While UK investors can trade US shares through many of the country's best known brokers, the range of services and fee structures on offer vary wildly. So before looking across the pond for new investment opportunities, it's worth examining whether your broker offers a service that suits your needs.

In this chapter we cover some of the main questions to ask brokers before giving some independent and impartial views on which offer the best services for US investing. If in doubt, the best website to dig deeper on this topic is The International Investor.

Does your broker offer *online* dealing?

Remember, a huge part of successful investing is keeping the costs low. Some people love the sound of an opinionated, portly fellow at the other end of a phone line before they buy their shares, but in these austere times we really ought to do away with such luxuries.

The advent of online execution-only (XO) dealing has made the cost of trading shares super-cheap - and all at the click of a mouse. But beware, many stockbrokers do not provide online share dealing for US and international stock markets. They will suck you in with cheap UK share dealing and fleece you as your itchy feet take over.

Does your broker charge *low commission* ?

Standard online commissions on US share trades are usually in line with those offered for UK shares but they do vary widely between brokers depending on the frequency of your trading.

Brits can now get commission-free dealing for US shares if they use platforms like Freetrade. Even the better established IG offers free trading if you buy or sell a certain number of shares per month. And Interactive Brokers - a US company - offers very cheap rates on share trading as well as a low custody fee.

Does your broker charge *low forex rates*?

It may seem obvious, but you can't buy a US stock unless you have some US dollars! On most occasions, brokers will convert your hard earned pounds into dollars behind the scenes and charge you a variable rate of commission. In the case of Crest Depository Interests (CDIs) (See: Does your broker cover *all US stocks*?) or shares bought via market makers, forex fees can even be bundled together with commission charges and entirely hidden from view.

Research by Stockopedia has found wide variations in the currency exchange fees charged by some of the UK's most popular brokers. At the time of writing, Interactive Brokers is the cheapest option for buying overseas shares, with an FX rate of just 0.02%.

Apart from shopping around for low forex rates, one of the most effective ways to dodge constant high fees is to use a broker that offers a US$, or multi-currency, trading account (See: Does your broker offer a $$ cash balance?). These accounts are available from large brokers and full service firms. They can help keep ongoing currency conversions to a minimum by allowing investors to hold and trade with US dollars.

Depending on the regularity of your trading, the absence of a multi-currency account could soon become costly. Hargreaves Lansdown, one of the most popular brokerages in the UK charges 1% for forex. In the absence of US$ trading accounts, its clients have to cough up for that currency conversion fee on every trade.

It's worth knowing that low cost brokers with low forex fees can still be found if you're prepared to compromise on service. Small execution-only broker Freetrade has low commissions and forex rates but doesn't have a full range of US shares available to buy on its platform.

A final point on the subject of forex is that regardless of who your broker is or how they deal with forex, foreign currencies cannot be held in ISA tax wrappers (although they can be held in SIPPs). As a result, if you are trading US shares through an ISA you can expect to be hit with a forex charge on every trade.

DIY currency conversions

It may be possible to mitigate high forex charges by converting currencies through a low cost foreign exchange service and then transferring those dollars to your trading account. Remember that it won't always be easy to transfer cash back out the same way (because of money laundering rules) so you may still have to pay higher rates on the way back. In any case, care should be taken to ensure that your broker offers a multi-currency account because many of them don't.

The mixed picture on forex charges means that choosing between broker service, low commission fees and low forex charges all comes down to individual circumstances. But here is a list of things to consider:

1. Trading through an ISA? You'll have to pay a forex charge on every trade if you are - so look for low rate forex fees.
2. High headline forex rates shouldn't be an immediate deterrent. If your broker offers a US$ trading account, multiple currency conversions can be kept to a minimum, which might make it cheaper in the long run.
3. Cashing out? US$ trading accounts can save on forex fees but if you are regularly withdrawing cash it might be cheaper to have a UK£ account.
4. How often will you trade? If you are not trading regularly it might be worth sacrificing comprehensive broker service in return for a firm that offers low commission and low forex fees.

Does your broker offer services that tackle currency risk?

Buying a US share means taking ownership of a US$ denominated asset. It also means that part of your investment allocation, however small, is exposed to any shifts in the underlying exchange rate between the pound and the dollar. In other words, you can gain or lose even if the share price doesn't move.

- You'll make a gain if the dollar rises against the pound;
- You'll make a loss if the dollar falls against the pound;

Historically, the dollar/pound exchange rate (known as '*cable*' by forex dealers) has been less volatile than share prices, although in 2008 the pound did move 30% against the dollar. Ultimately, evaluating currency risk is a personal decision. For those investors that are uncomfortable with it, there are ways to 'hedge' your exposure. The ways to do this include:

- Making a spot FX trade
- Exchange listed Futures and Options
- Contracts for Difference (CFD)
- Spread betting

Find out about hedging

Not all UK brokers offer hedging tools like FX trading and spread betting on their platforms. If you are concerned about currency rate risk enquire with your broker about the options available to you - or look further afield.

Does your broker offer a *dollar cash balance*?

This is an important but subtle point. Some platforms don't actually allow you to hold US dollars in your account - they only let you hold sterling. This has rather expensive consequences.

When you purchase a US share, for example Google, all brokers have to convert the necessary £ from your cash balance into $ to buy the shares. But if you decide to sell Google to buy Apple what do you think happens?

Sensible brokerage accounts will make the sale, receiving the dollars which you can use immediately to buy Apple directly. But some don't let you hold a dollar cash balance! So on selling Google, the dollars received are swept into sterling, before being reconverted back into dollars to purchase Apple. You are effectively charged for forex twice - a form of daylight robbery.

Another troubling side-effect of trading through a sterling-denominated brokerage account involves dividend payments. Be aware that dividends paid in dollars to a sterling account will incur forex charges - making this type of arrangement even more unappealing.

For international dealing you really should insist on being able to hold foreign currency as cash - it will save you so much money on your ongoing US transactions. International firms like TD Direct and Saxo Bank will let you do this, as will some full service brokers.

Bear in mind that cash balances in trading accounts generally don't come with appealing interest rates - often at interbank rates minus between 1% and 3%. In the current environment, that means absolutely no interest will be earned on cash.

Does your broker cover *all US stocks*?

Most of the main UK brokers offer trading in all the stocks covered on the big US exchanges - the NYSE and Nasdaq. In the case of the less covered ‘over the counter’ or Pink Sheets stocks some brokers offer a more limited service. If you want to trade Pink Sheet or OTC stocks in your SIPP it’s worth asking about this.

In addition, a considerable number of US shares are offered in the UK as CDIs - or Crest Depository Interests. Crest is the UK settlement system that records the ownership of shares that don’t have paper certificates. It also manages issues like dividends and corporate actions.

Crest does not deal with international shares so CDIs were created as a way of packaging individual US shares as a sterling equivalent. In many ways they are similar to ADRs - or American Depository Receipts - in the US. CDIs are traded over the counter through market makers, which means that the quoted price of the underlying security might be slightly different to its CDI equivalent.

Where are US stocks kept?

Most UK brokers operate using nominee accounts, which pool together both the CDIs and directly held shares of all their clients. In some cases, directly owned shares will be held by a custodian in the US. In the case of Saxo Bank, the shares are held by Citibank, while TD Direct shares are held by TD Ameritrade.

Does your broker deal in US *trading hours*?

The New York Stock Exchange is open for trading on weekdays from 9.30am to 4.00pm Eastern Standard Time, or 2.30pm to 9.00pm GMT. While many UK brokers allow investors to trade whenever the market is open, others limit trading to UK hours only.

For instance, some clients of UK brokers will find that they can only trade US shares from when the US market opens at 2.30pm to the UK close at 4.30pm GMT - not ideal for those with a US trading fixation.

One issue worth bearing in mind if your broker only offers limited trading hours in US markets, is that things might get worse for a short time when the world changes the clocks for Daylight Saving Time. While both the UK and US move an hour back and forth between spring and autumn, those dates don't quite coincide. In March you will lose an hour to the US for up to three weeks, while gaining an hour for a week or so in October.

What to ask your broker

1. Can I deal US shares online in an 'execution only' online capacity?
2. Can I trade shares from the US market open at 2.30pm until the close at 9pm or do you stop US trading at the UK market close?
3. Can I trade Pink Sheet or OTC stocks with you?
4. How are trades 'settled' and where will the shares be held?
5. Will I own the stock directly or will they be CDIs?
6. What happens if there are corporate actions (e.g. if I have to vote?)
7. How will I get my dividends?
8. Are there dividend reinvestment schemes for USD shares?
9. If I want to keep the forex costs down can I open and fund a separate $ denominated account with you?
10. Can I buy US shares in a regular £ denominated broking account?
11. If I do open a £ denominated broking account, and I buy and sell US shares what happens to the $ generated? Is the cash held in a separate cash account in dollars?
12. If you don't have $ cash accounts what happens if I want to sell a US share and then buy another US share immediately afterwards? Will I be double charged forex commission?
13. Will I get interest on uninvested cash?
14. If I own US shares, how can I hedge my currency risk on your platform... what are the options? i.e. Do you offer CFDs or spread bets on currencies?

What you need to know about taxes and US stocks

While the US is no tax haven, there are certainly some benefits to trading American shares. Many investors may not be aware that US stocks can be held in tax wrappers like ISAs and SIPPs and that, unlike in the UK, there is no stamp duty on US shares. Given the USA is such an excellent economy for growth stocks and that many UK brokers provide cheap execution services on US dealing, it is surprising that more investors don't hold them. Here's a quick summary of the tax benefits of investing in US stocks.

1. No Stamp Duty

Stamp duty, a form of tax on new purchases, has long been the bane of UK home buyers and stock market investors. Fully listed London Stock Exchange shares still require the payment of 0.5% stamp duty though the government has dropped the requirement on junior stocks trading on recognised 'growth' markets like the junior AIM and ISDX markets. The good news for UK investors in US shares is that **stamp duty does not apply when it comes to US stocks**.

2. Dividends don't get double taxed - the W-8BEN form

Income needs to be declared in the UK even if it is made abroad and as such, UK residents still need to pay UK taxes from US dividends. This can lead to the rather awkward situation where dividends get 'double taxed' - firstly in the US, and then in the UK via income taxes.

The good news is that you can easily avoid this. Before investing in US stocks and shares, it is necessary to complete a W-8BEN form. This form notifies US tax authorities that you are a UK resident and are therefore entitled to a lower rate of dividend withholding tax. **Indeed, the standard rate of dividend withholding tax drops from 30% to 15%.**

The W-8BEN forms remains valid for three calendar years after the year in which it is signed. Your broker's website should feature a guide showing you how to complete the form a copy of which is available at this link.

3. Capital Gains can be sheltered

The only shelter from UK income and capital gains tax would be by investing in a tax-efficient wrapper - either using an ISA (individual savings account) or a SIPP (self invested personal pension).

If investors choose to buy US shares only through their SIPP, they do not need to fill in the W-8BEN because US tax authorities recognise the SIPP administrator as the entity who can make the necessary declaration on investors' behalf. Furthermore, for holders of US shares within SIPPs, the withholding tax rate is removed completely so there is a 0% tax rate on any US income. US stocks can usually be held in an ISA, although availability may vary from brokerage to brokerage.

4. You can skip (nearly) all taxes through spread betting

While spread betting is banned in the US, it isn't in the UK and in fact has many tax benefits for the individual investor. Gains made on trading stocks are classed as betting gains and are thus exempt from UK stamp duty, while profits are not liable to UK capital gains tax. If betting is your profession you do have to declare gains as income for tax purposes. Spread betting firms are actually regulated by the Financial Conduct Authority rather than the Gambling Commission.

While spread betting has tax benefits, bets are subject to often wider 'spreads' while also generally maturing over a fixed term (from one day to months away). Long term investors are often better served by investing in the underlying shares through a regular brokerage account, while shorter term traders may prefer spread betting as a vehicle.

Essential resources for researching US stocks

Given the vast size of the stock market and the enthusiasm among Americans for investing in shares, it's little surprise that information and resources flow in abundance. Americans are actually spoiled rotten by the huge range of research resources at their disposal. Unfortunately, most (but not *all*) of the analysis and commentary is geared to the local market, which may leave UK investors feeling slightly left out. Here are some ideas…

Company reporting

The **Securities and Exchange Commission** (SEC) provides resources that help investors make informed decisions.

- In the first instance, investors can download at the click of a mouse all of the company reports they need from the EDGAR website. Indeed, companies are required to file 10-K, 10-Q and 8-K reports with the SEC - which in turn hosts them on the EDGAR website.
- The SEC also runs investor.gov - a website to help individual investors with education and avoid fraud. A mine of information for investing in the US (and something that UK regulators ought to be doing better).

Data Services

A lot of our work at Stockopedia has been inspired by the following US data research services. Historically they led the field, but oddly haven't developed much in the last decade and have never spread beyond the US borders. In true US style, many of these services are 'Momentum' focused in their ranking systems. Stockopedia takes a more balanced & modern approach to stock ranking which may be more attractive to Value & Quality focused investors.

- **Value Line** - the Granddaddy of data driven research services. ValueLine's"*Timeliness Rank*" has a great track record, and has long been heavily based upon earnings momentum. Warren Buffett has always been a fan of their 1 page print stock reports.
- **Zacks** - The website is the home of the "Zacks Rank" - an earnings momentum ranking for short term trading with an excellent record. Good screening tools and lots of tipsheets.
- **Investors.com** - the home of Investors Business Daily online and the official CANSLIM® rankings. Bill O'Neil's CANSLIM® strategy (essentially a strict growth and momentum strategy) has earned itself a cult of followers the US.
- **AAII.com**: The online home of the American Association of Individual Investors. The website has been tracking famous screening strategies since 1999.

Social Media & Chat

- **StockTwits**: A service built upon Twitter's chat feed and very popular with traders needing only 140 characters to share links and thoughts.

- **Seeking Alpha** & **Business Insider**: The digital upstarts and two of the most popular blog and editorial aggregators in the US. Essential sources of stock ideas.
- **Investors Hub / ADVFN**: The UK's ADVFN 'owns' the OTC market chat forums. As is the case with microcap boards in the UK, investors should beware of self-styled gurus, pied pipers and some really poor quality stocks.

News, Magazines & Papers:

- **MarketWatch**: An online business and finance news service owned by Dow Jones.
- **Barron's**: The weekend only financial journal owned by Dow Jones. Essential reading.
- **Forbes**: The online edition of the bi-weekly business magazine; great for interviews with some of America's best known investors.
- **Bloomberg Business Week**: A weekly magazine focusing on large caps and big market movements now published by Bloomberg LP.
- **Wall Street Journal**: The US's Financial Times. Highly respected for its coverage of business, economic and political news. The paper is packed with investment stories which can of course complement quantitative analysis.
- **Investor's Business Daily**: IBD was created by William O'Neil out of frustration at the lack of what he considered to be the most important information about stocks. Includes IBD's proprietary SmartSelect Ratings on stocks.

Part 4 - Conclusion

The American Dream

Looking to America for investment opportunities makes sense for many good reasons. Investing in foreign markets is an obvious way of diversifying the risk of over-exposure. Where better to do that than in a region that accounts for more than 50% of the global equity market value?

But America's appeal goes way beyond simply spreading risk. It's vast, rich market is home to some of the most exciting and dynamic companies in the world.

Winston Churchill once said: *"The United States is like a giant boiler. Once the fire is lighted under it, there is no limit to the power it can generate."* The development of the new US service included a huge amount of research into American markets and investing culture. That ranged from understanding what makes America's corporate culture tick to the the mechanics of actually investing in it. What we found was that American companies represent a huge opportunity to UK investors.

In so many ways America inspires confidence. It nurtures and encourages businesses to grow, and has the geographic and economic size and scale to help them do it with huge success. Meanwhile, it puts investor protection at the heart of market regulation and demands high standards from the companies that choose to list on its exchanges.

Crucially, these markets are accessible. UK investors can trade American shares with very little extra cost and fuss than they are used to at home. Commissions are low, foreign exchange costs can be managed and taxes are no deterrent. The markets are highly liquid and offer all the benefits of diversification - but with a familiarity that makes it feel like investing in your own back yard.

It starts with a process

At the heart of everything we do at Stockopedia is a belief in sound investment styles based on what actually works in stock markets. The strongest forces influencing share prices are 'Value' and 'Momentum' - better known as 'cheapness' and 'share price strength'. The prices of stocks, sectors and indices tend to trend in a single direction, but eventually greed or fear ensures that they overshoot. Investing with momentum captures the trend, while investing for value captures or defends against the overshoot.

Academics and traders have shown that a share portfolio built using a blend of these principles has beaten the market over almost all time frames. James O'Shaughnessy, in his famous book *"What Works on Wall Street"*, showed that a portfolio of *Trending Value* stocks has been the best performing strategy over the last 40 years. Meanwhile the quants at AQR Capital have published astonishing research titled *"Value and Momentum Everywhere"* which illustrates the perpetual outperformance of the strategy. Not only does this blended approach outperform, but it does so at almost half the risk of using either strategy alone.

'Hunters' and 'Farmers'

Hunters are much more active in daily stock markets, seeking to invest more nimbly and select individual stocks for their portfolio. If this is your style, try scanning lists of stocks daily or weekly that are showing evidence of insider buying, high conviction fund manager bets or strong earnings momentum. Finding standout quality, cheap, moving stocks that are showing Smart Money backing can be a huge confirmatory signal. Act quickly in these scenarios and you could find a rare market gem.

Farmers tend to rely on periodic stock screening to highlight portfolios of shares worth buying. Screens can be built according to sound investment principles but taken further by incorporating Smart Money rankings. The great benefit of using rankings as criteria in screens is that one can discover stocks showing the general, rather than specific signs of Insider, Institutional or Analyst backing. The easy to use Stockopedia Insider Rank, Best Ideas Rank and Earnings Momentum Rank can be added as overlays to a traditional value/momentum screen to filter candidate stocks further.

To see how these principles work in practice as well as a variety of ready to go screens, check out the tools at www.stockopedia.com. We aim to make the best investment processes completely available wherever you are.

Hope to see you online soon!

Ed, Ben, Keelan and Megan