

FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand



Look to the future for sign of where market is headed

ROWAN JONES

If you are an experienced share market investor, you will know more often than not our market moves in lock-step with the US market.

This is why one of the first things I do every morning is check how the US traded the night before.

If the Dow Jones index had a great night, our share market is pretty much assured to be in for a good day. And it makes sense, as the US is the epicentre of global markets.

But we don't always follow the direction of the Dow because sometimes after the US share market closes things happen, or announcements get made, that can affect markets' direction.

For example if, after the US market closes, the country's government makes an unexpected positive announcement, it's highly likely all global markets — including ours — will perform strongly regardless of how the Dow has performed. But you

don't have to guess how you think the US market is going to trade in reaction to the announcement, because you can just take a look at how the Dow futures are trading.

The Dow futures are a real tradeable financial instrument whose underlying value is based on the Dow Jones Industrial Average, which is an index of 30 major US companies.

People who enter these contracts are trying to make money by correctly predicting the direction of the Dow. However, most market participants don't actually trade the Dow futures, instead they just look to them to get an indication of how the US share market is going to trade at the opening bell.

So if you are ever wondering why our share market is not trading in line with how the US market did, a quick check of the Dow futures will probably give you the answer.

Rowan Jones is an adviser with Entrust Wealth Management



Illustration: Don Lindsay