WHY WE UTILIZE ETFs

SUMMARY

- Many ETFs can be used to mitigate risk and help lessen a volatile market cycle.
- ETFs allow you to immediately access nearly any global investment theme across a broad range of asset classes.
- ETFs can help lower the fees in your portfolio and enhance your returns by providing access to sectors, specific regions of the world and niche asset classes with complete transparency and liquidity.
- ETFs are more tax efficient than mutual funds.

Millions of investors have successfully integrated ETFs into their portfolios over the last two decades as these innovative vehicles have surpassed more than $1.6 trillion in global assets. They are used by both retail and institutional accounts as a method of gaining instant exposure to a specific asset class with the click of a button.
Through my conversations with clients and industry peers, I have recognized several common traits that avid ETF investors, like WT Wealth Management share.

Liquidity - Investors who enjoy instant liquidity are certainly drawn to ETFs in the same way as an individual stock. Because you can buy or sell an ETF at any time during the trading day, you have maximum flexibility to make changes whenever you desire. This is especially true for portfolio managers who are concerned about volatile markets. You never have to worry about a surrender or redemption fee that would hinder your investment decision to exit a position once it's established. Conversely, when you sell a mutual fund position the “sell” order does not get consummated until after the close of the market on the day the trade was place.

Global - ETF investors are also drawn to the variety of global opportunities that exist. ETFs offer single country, regional, or broad-based exposure to a variety of asset classes around the globe. This allows ETF users to pinpoint an opportunity almost anywhere in the world or take advantage of specific emerging macro themes. As an example, one ETF won numerous awards last year for its unique index approach to combining equity and currency related holdings. This is just one example of a global strategy that many investors were previously unable to access.

Risk Management - One of the advantages that ETFs offer over mutual funds is the ability to place automatic stop losses to manage downside risk. Many professionals prefer this method of risk management, because they don't have to worry about being stuck in a position that is heading south quickly or unexpectedly. In addition, you have the flexibility to set limit orders to execute a trade at a price that is desirable, both on the buy and sell side. Plus, the inherent diversification qualities of an ETF mitigate the business risk of investing in a single company.

Creative - ETFs allow you to construct a portfolio of creative holdings across a variety of asset classes. Many investors I come into contact with want to broaden their horizons to include commodities, real estate, currencies, and a host of other unique ideas. ETFs allow you to be extremely diversified and offers access to previously hard to reach areas like frontier markets, niche industries, volatility indexes, leverage, and hedging strategies. Today hundreds of websites allow professionals to hone in on and research specific options that match needs and provide excellent detailed information on each ETF.

Fee Conscious – Experts have drilled into you for years that fees matter and ETF investors are very aware of this concept/advantage. Investors should abhor large trading commissions, surrender fees, and outsized annual management fees. Professionals also focus on the disparities in expense ratios and internal costs between individual ETFs and mutual funds. One noted example of this dichotomy is the Vanguard REIT ETF (VNQ), which charges an expense ratio of just 0.10% and the iShares Real Estate ETF (IYR), which charges an ongoing fee of 0.45%. That may not seem like a big difference, but paying excess fees can drag on performance over extended periods of time.

Taxation – The most widely pooled investment option, mutual funds, tend to be one of the most tax inefficient. Every year investors buy into capital gains, especially when the markets have been strong. Consider this example, a fund manager buys Apple, (AAPL) 6 months ago and has enjoyed a substantial increase in the stock price. Now you invest and a few days later he sells some of his position, that's your tax event too. You get the tax burden and have not enjoyed in any of the gain. ETFs allow professionals to manage your taxes substantially better than the “pooled” association one gets through a mutual fund and the annual event of 1099's.

Exotics – As the ETF universe has expanded "exotics" have been introduced to the market place. In the hands of a professional money manager they can be quite helpful in mitigating risk. Inverse ETFs "short" indexes and allow professionals to mitigate some down side risk. Inverse ETFs can be used to hedge against rising rates, while others may invest in the short end the interest rate curve while shorting the longer end of the treasury curve. In the hands of a professional, these can be very helpful in mitigation a variety of market risks over short and medium lengths of time.
Knowledge – Another advantage of owning an ETF is that you know exactly what you own every single day. The ETF sponsors have done an excellent job in disclosing positions via their websites and other outlets so that we are informed about what the underlying portfolio looks like. Hedge funds, mutual funds, and other private label investments often make it difficult to discern exactly what their current holdings are. Even when you do get this information, it is often many months behind the present day asset allocation.

Under Performance – We left this to last so it would be remembered. Most ETFs replicate an index like the S & P 500 or the Barclays Aggregate Bond Index. You pretty much get what the index does, less fees. Research has shown that nearly 80% of mutual fund managers fail to beat their respective index so 8 of 10 have under-performed their benchmark. ETFs track their indexes very closely, sometimes within a few basis points while doing so at a fraction of the cost. It's one more reason we love ETFs at WT Wealth Management.

Each of these traits plays an important role in the investment process at WT Wealth Management. Knowing what we own and why we own it is a crucial component to a successful outcome in your portfolio. We believe that ETFs continue to be on the forefront of innovation in terms of their ability to simplify life and enhance returns. That is why they are our preferred vehicle of choice when we are building portfolios for our clients.

DISCLOSURE