

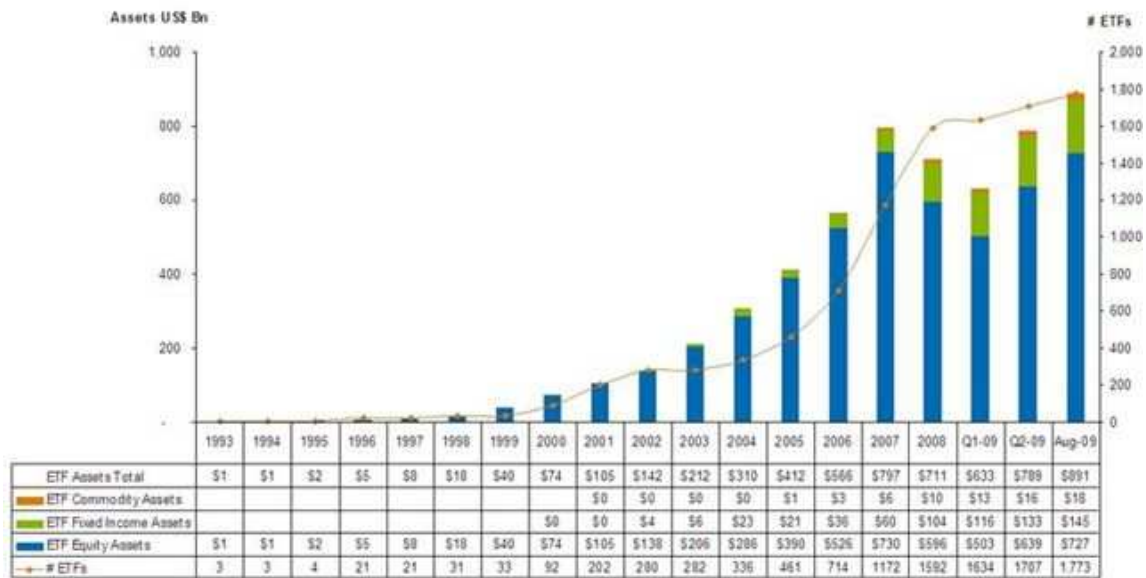
# ***“Exchange Traded Funds-The Fastest Growing Asset Class You’ve Never Heard Of”***

By Brian Bush

During meetings with prospective clients, I am often surprised by how many people have little or no knowledge about Exchange Traded Funds. Exchange Traded Funds or (ETFs) are one of the fastest growing asset classes in the securities industry. Today, in the United States there are 845 ETFs with assets of \$542 billion. (Source: Investment Company Institute)

Chart-Asset Growth of ETFs:

**Global ETF asset growth, as at end August 2009**



Source: ETF Research and Implementation Strategy Team, Barclays Global Investors, Bloomberg

So why are investors flocking to this new investment vehicle? The reasons are simple; lower cost, tax efficiency and excellent liquidity. Expense ratios for ETFs tend to be significantly lower than those of traditional mutual funds. Annual fees can be as low as .09% of assets compared to the average mutual fund fees of 1.25%. High expenses adversely affect your investment performance and should be avoided when at all possible. Like higher expenses, taxes can also negatively impact investment performance. Most ETFs are constructed to track Benchmark indexes, like the S&P 500. These funds typically buy and sell securities less often than actively managed funds, thereby decreasing the amount of capital gain distributions to the owners. With traditional mutual funds, shareholders purchase and redeem shares from the fund, which often results in capital gains distributions to all shareholders, even to those who continue to hold their investments. Exchange Traded Funds are traded just like stocks on major stock exchanges. They can be bought or sold throughout the trading day providing investors with instant liquidity.

So why haven't you heard more about ETF's? Likely it is because one of the ways the fund companies maintain a lower cost structure is by reducing advertising and marketing expenses. No glossy marketing brochures or catchy Madison Avenue commercials are a small price to pay for a better way to invest.

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