ETFs Explained

WHAT IS AN ETF?

Exchange traded funds combine the benefits of stocks and mutual funds into one investment vehicle. Similar to owning individual stocks, ETFs can be traded throughout the day. And like mutual funds, ETFs provide the diversification of owning a variety of stocks, bonds, or other assets. This unique combination is why ETFs have been called the "next generation mutual fund."

ETFs VS. MUTUAL FUNDS

	AVERAGE FUND EXPENSE RATIOS	INDEXED (PASSIVELY MANAGED)	VISIBILITY INTO UNDERLYING HOLDINGS	AVERAGE CAPITAL GAIN DISTRIBUTIONS	ABILITY TO ACCESS ASSET CLASSES ACROSS THE GLOBE	CAN BE PURCHASED THROUGH ANY BROKERAGE ACCOUNT	PRICED, BOUGHT, AND SOLD THROUGHOUT THE DAY
ETFs	Lower	Usually	Everyday	Lower	Easier	Yes	Yes
MUTUAL FUNDS	Higher	Usually Not	Quarterly	Higher	Harder	No	No

ETFs allow access to new investment opportunities

The proliferation of ETFs representing nearly every asset class allows investors to access investment strategies and techniques that, up until now, have only been available to hedge funds and large, sophisticated investors. With ETFs, you can precisely tailor your portfolio with exposure to equities, bonds, commodities, REITs, currencies and even alternative investment strategies. With ETFs, you can choose, for example, between specific market segments, sectors and industries such as energy, commodities, basic materials and industrial metals. You can even invest in agriculture and precious metals such as gold and silver.

ETFs can remove active manager risk

Most ETFs seek to track the performance of an index by investing in the underlying components of that index. ETFs, therefore, allow investors to remove the manager risk that comes with actively managed mutual funds. Research has shown, more often than not, actively managed mutual funds underperform their benchmarks over the long-term.

ETFs offer flexibility

ETFs trade continuously throughout the day, so you can execute your investment decisions and take advantage of investment opportunities when you want. With mutual funds, you are unable to buy or sell shares intraday. ETFs also give you the advantage of using stop-loss orders, limit orders, and options. These are important risk management tools that mutual funds simply cannot provide.

ETFs are tax efficient

Unlike mutual funds, you don't pay taxes when other shareholders cash out of their positions. Annual capital gain distributions are typically much smaller with ETFs than mutual funds. With ETFs, you control when you realize taxable gains and are not penalized when other shareholders decide they want to sell.

ETFs are transparent

Because ETFs are required to report holdings every day, you always know what you hold in your portfolio. Since mutual funds only disclose holdings quarterly, it is difficult to know what you own at any point in time. Sometimes, the underlying investments within mutual funds change significantly or the fund manager may drift from their stated investment objectives. With ETFs, you always know where you stand. In addition, ETF management fees are clearly stated upfront, not hidden in the fine print or buried in obscure add-on fees such as 12b-1 fees.

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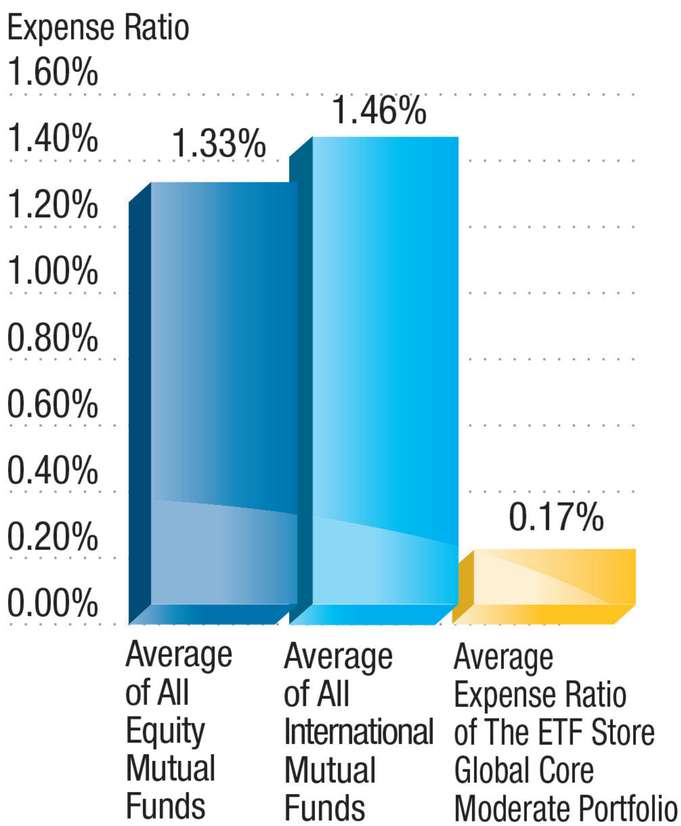
THE IMPACT OF INVESTMENT EXPENSES AND TAXES ON YOUR MONEY

ETFs have been called **The Next Generation Mutual Fund.** Why? One of the biggest reasons is cost. On average, ETFs have expenses that are much lower than mutual funds.



All amounts exclude portfolio management fees and trading costs. Investment Company Institute, 2015

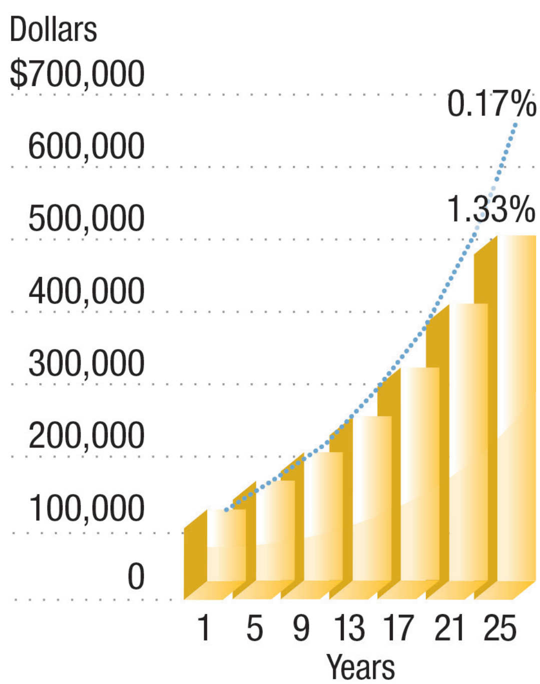
The Impact of Taxes, Fees and Expenses on Your Investments

According to the Investment Company Institute, the average expense ratio for equity mutual funds is 1.33%. Compare that to the average expense ratio for the ETFs held in The ETF Store's Global Core Moderate Portfolio, which is approximately 0.17%. And this portfolio not only includes equities, but also bonds, commodities, and real estate. Also, with mutual funds, there may be other charges such as 12b-1 fees and sales loads which can bring total fees well over 2% per year!

Lower fees matter – a lot. Consider an investor starting with $100,000, earning an 8% annual average return and paying 0.17% versus 1.33% in fees over a 25-year period. The investor in ETFs ends up with over $155,000 more!

Over time, the difference in fees charged by mutual funds versus ETFs can dramatically erode the value of your long-term assets.

Of course, lower fund fees are not the only reason to use ETFs. ETFs trade on stock exchanges so you can take advantage of investment opportunities whenever you want. ETFs enable you to invest in nearly any sector, style, asset class, or market anywhere in the world allowing for broader asset allocation. Finally, ETFs publish what they own every day, so you do not have to worry about what your mutual fund manager is doing with your money.



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