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Reynolds and Associates
12345 Anywhere Street
San Diego, CA 92127
858-592-6262
www.markreynoldsandassociates.com

Mark Reynolds
Title

What You Should Know About the Expanding ETF Market

Potentially Lower Fees and More Indexes Add to Newcomer's Growing Popularity

Do you know it's now possible to invest in a broad group of securities by making one simple trade? Imagine being able to pick and choose among individual securities that represent everything from entire asset classes to specific sectors and industries.

Actually, exchange-traded funds got started years ago. In 1993, investors in the first ETF could buy shares that represented ownership in a portfolio of all the companies in the S&P 500 index. Since then, the ETF market has expanded to include a large selection of indexes, including those that track domestic and international companies of all sizes, bonds with the full range of maturities, real estate, commodities, currencies, precious metals, and futures.

ETFs account for about 30% of U.S. equity trading volume, compared with an insignificant amount 10 years ago.[1] Here's a look at some of the advantages that make them increasingly popular with investors.

THE FUNDAMENTAL DIFFERENCE

An ETF is a portfolio of securities assembled by an investment company to mirror the makeup of a particular index. Investors who buy shares in the ETF are buying a divided ownership in the portfolio.

When you place an order to buy or sell ETF shares, no new shares are created and no existing shares are redeemed. You simply

A Wealth of Choices

The number of exchange-traded funds has soared in recent years. ETFs account for about 30% of U.S. equity trading.

Year	Number of ETFs
2006	359
2007	629
2008	728
2009	797
2010	923
2011	1,134
2012	1,194
2013	1,675
2014	1,974

Sources: Investment Company Institute, 2015; NASDAQ, 2015 purchase shares that other investors are selling, like stocks trading in the secondary market.

In theory, an ETF's share price is based on the value of the underlying securities. But, in practice, a range of variables — including demand for the ETF shares themselves — may cause ETFs to trade at a premium or a discount relative to the value of the underlying investments. The principal value of exchange-traded funds will fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

A STRUCTURAL ADVANTAGE

The unique structure of ETFs provides certain advantages:

- **Flexibility.** Mutual funds are priced once daily based on their closing price. Any purchases or redemptions of shares can't be put through until the end of the trading day. ETFs, on the other hand, are traded throughout the day, like stocks. Intraday trading enables investors to buy and sell when they believe the price is the most favorable. Investors can also place market, stop-loss, and limit orders on ETFs.

- **Lower expense ratios.** Most ETFs are passively managed, meaning that the fund manager makes only those trades necessary to duplicate changes in the underlying index. This helps keep transaction costs down.

Although investors typically pay a commission to buy ETF shares, ETFs tend to charge lower annual fees than mutual funds. This means that ETFs can be more expensive to buy than some mutual funds but may be cheaper to hold over the long term. One caveat: Because a commission is paid for each purchase, ETFs tend to be poor candidates for a dollar-cost-averaging strategy.

- **Tax efficiency.** ETFs are considered fairly tax efficient because their structure allows investors to defer some or most of their capital gains until they sell their shares. By deferring capital gains taxes, investors can use the money to continue pursuing investment gains. Taxes are generally not a factor for ETF shares held in tax-advantaged retirement plans.

ACCESS TO MARKETS

ETFs offer a way to diversify that could be cost-prohibitive to achieve by directly buying and managing a basket of the underlying securities. Diversification does not guarantee a profit or eliminate the risk of loss; it is a method used to help manage investment risk. Also, some ETFs allow investors to gain access to markets that previously may have been off-limits. For example, ETFs may allow an investor to buy ownership of gold bars held in foreign bank vaults.

With hundreds of ETFs to choose from and more being added each year, it may be time to consider whether they could play a role in your portfolio. Call today to learn more about how ETFs could help you pursue your long-term financial objectives.

Exchange-traded funds and mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) NASDAQ, 2015