



The Benefits Of ETFs

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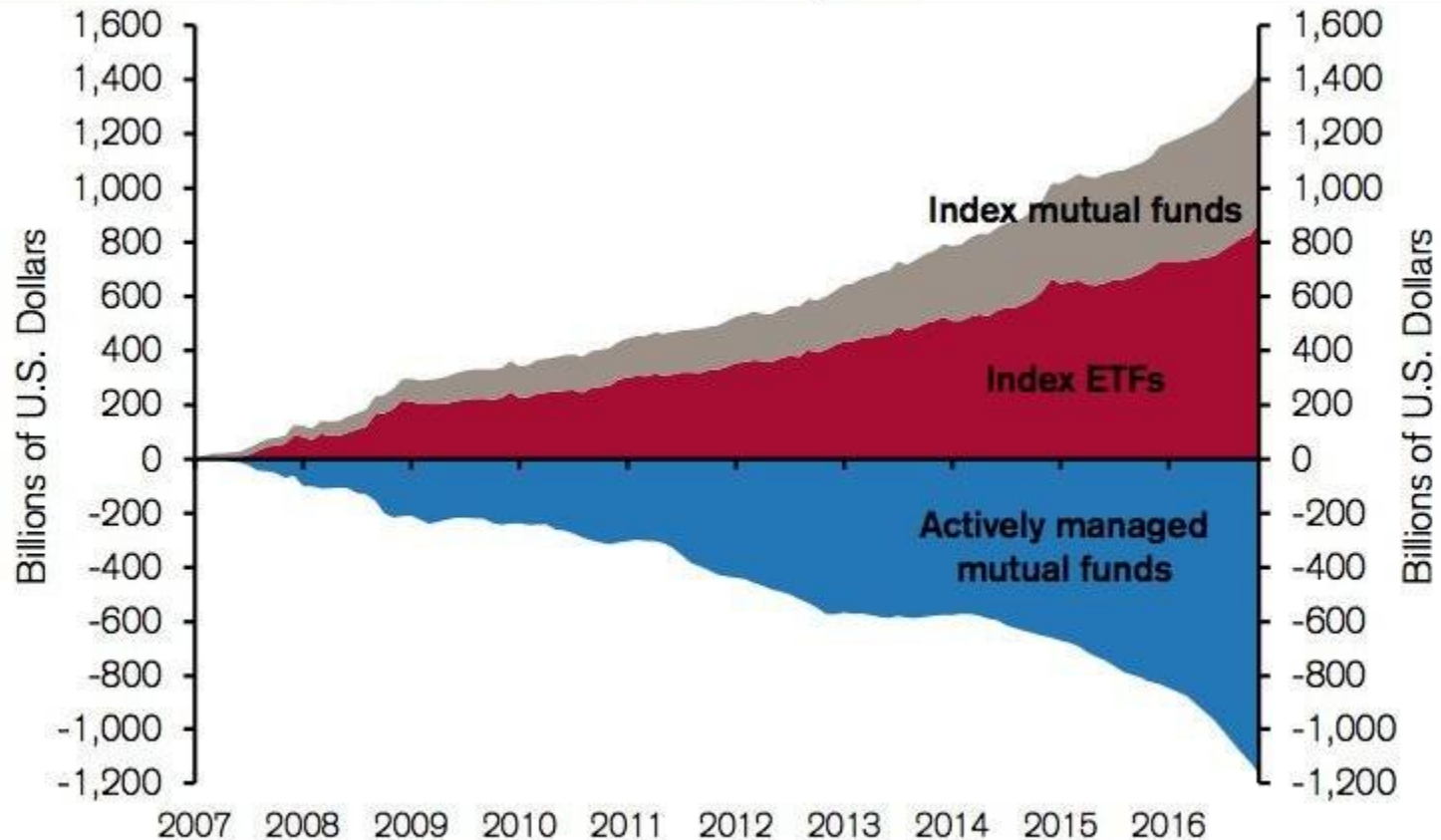
FMD CAPITAL
Management

What Is A Mutual Fund

- **First introduced in 1924 - over 7,000 funds today - \$17 Trillion**
- **Basket of stocks, bonds, commodities, or currencies.**
- **Most are actively managed, some passive.**
- **Fund managers govern security selection, position sizes.**
- **Priced once daily (EOD)**
- **Costs: expense ratio, sales load, redemption fees, transaction fees.**

Active Mutual Funds Are Shrinking

Exhibit 1: Flows from Active to Passive Funds in U.S. Equities



Source: Investment Company Institute; Simfund; Credit Suisse.
Note: U.S. domestic equity funds; 2016 figure as of 11/30/16.

What Is An ETF

- **Introduced in 1993 - over 1,900 funds today - \$2.7 Trillion**
- **Basket of stocks, bonds, commodities, or currencies.**
- **Most are passively managed, some active.**
- **Security selection governed by underlying index.**
- **Priced throughout trading day.**
- **Costs: expense ratio, transaction fee.**

Why I Love ETFs

- **Low embedded costs.**
- **Instant diversification.**
- **Reliable and transparent vehicles.**
- **Tax efficient.**
- **Global footprint.**

How An ETF Is Constructed

SPDR S&P 500 ETF (SPY)

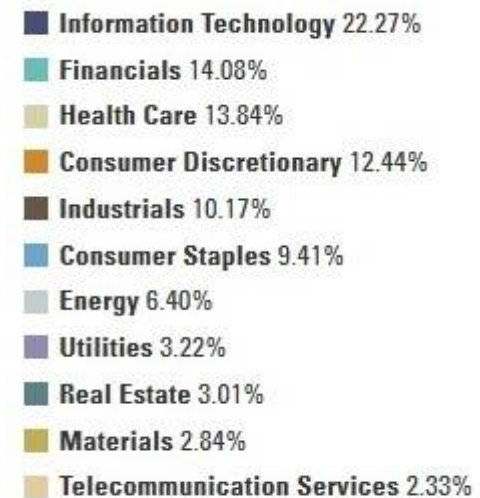
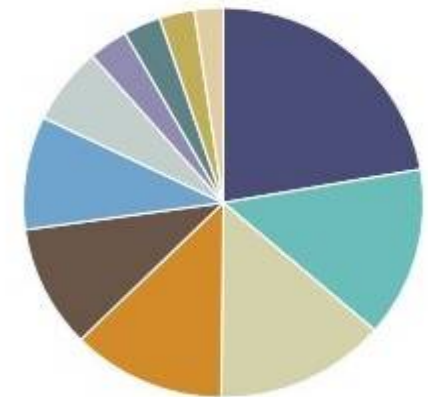
Fund Top Holdings ?

As of 04/21/2017

NAME	WEIGHT	SHARES HELD
Apple Inc.	3.70 %	59,067,910
Microsoft Corporation	2.55 %	87,014,760
Amazon.com Inc.	1.77 %	4,460,292
Facebook Inc. Class A	1.68 %	26,525,016
Exxon Mobil Corporation	1.66 %	46,695,748
Johnson & Johnson	1.64 %	30,549,288
Berkshire Hathaway Inc. Class B	1.54 %	21,388,818
JPMorgan Chase & Co.	1.50 %	40,224,130
General Electric Company	1.28 %	98,232,090
Alphabet Inc. Class A	1.27 %	3,345,729

Fund Sector Allocation

As of 04/21/2017

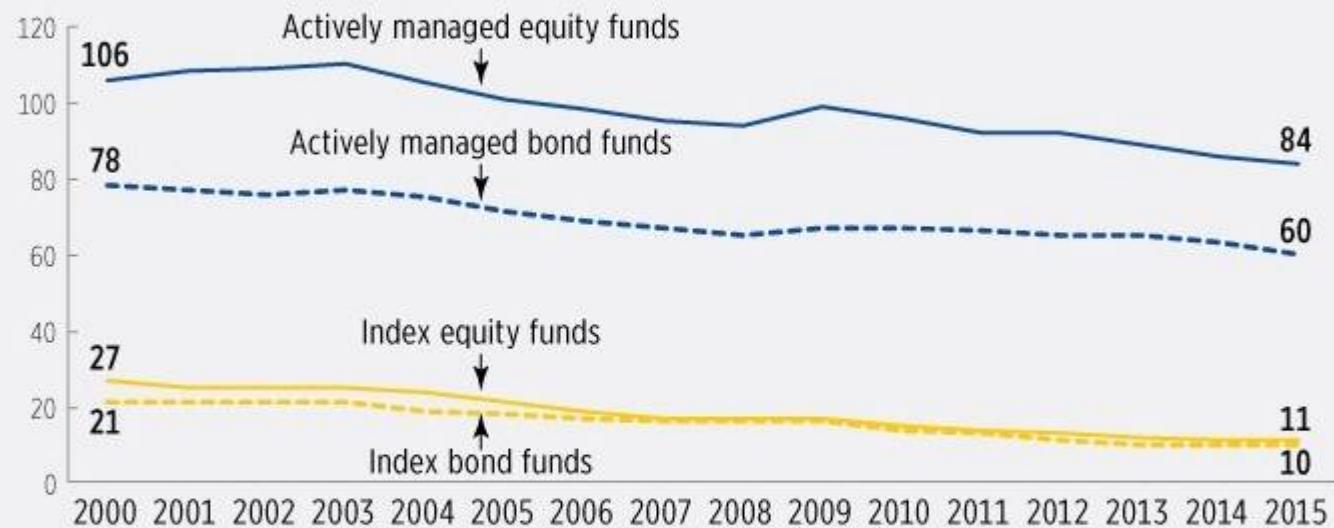


ETFs: Cost's Matter

FIGURE 5.6

Expense Ratios of Actively Managed and Index Funds

Basis points, 2000-2015



Download an [Excel file](#) of this data.

Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

Why ETFs?

This is what stock pickers are up against...

Analysis of lifetime returns by sector, 1980-2014

Sector	Median excess return vs Russell 3000	Percentage of stocks with negative <i>EXCESS</i> returns	Percentage of stocks with negative <i>ABSOLUTE</i> returns	Percentage of extreme winner stocks
All Sectors	-54%	64%	40%	7%
Consumer Discretionary	-62%	65%	44%	7%
Consumer Staples	-3%	51%	26%	15%
Energy	-93%	72%	48%	6%
Materials	-73%	66%	34%	8%
Industrials	-58%	64%	37%	7%
Health Care	-39%	60%	42%	8%
Financials	-21%	58%	30%	6%
Information Technology	-63%	71%	53%	6%
Telecommunication Services	-57%	68%	54%	6%
Utilities	-141%	85%	14%	0%

Source: FactSet. J.P. Morgan Asset Management.

Lots Of Fish In The Sea

Facebook vs. Twitter (2-Yr Chart)



Picking Stocks is Hard

Amazon vs. Wal-Mart (5-Yr Chart)



How To Trade ETFs vs. MFs

- **Buy mutual funds in dollar amounts.**
- **Buy ETFs in whole share amounts ~ individual stock.**
- **Info needed:** Ticker symbol, buy/sell, # of shares, type of order.
- **Can use stop losses and other trading triggers with ETFs.**

Building A Portfolio of ETFs

- **Don't overcomplicate your life with too many positions.**
- **Sophisticated ETF portfolio = 10-15 holdings.**
- **Simple ETF portfolio = 5-10 holdings**
- **Smaller accounts = fewer holdings.**

Building Your Portfolio Core

- **Highly diversified positions.**
- **Lowest expense ratios & transaction fees**
- **Maintain correlation with stocks or bonds**
- **Provide consistency and reliability in your portfolio.**

Example: Stock Allocation

Vanguard Total Stock Market (VTI)

- 3,600 U.S. stocks
- Large, mid, and small cap exposure.
- Expense ratio = 0.04%
- \$76 billion in total assets (liquid)

Example: Bond Allocation

iShares Core U.S. Bond ETF(AGG)

- 6,085 individual U.S. bonds
- Treasury, corporate, mortgage, etc...
- Expense ratio = 0.05%
- \$44 billion in total assets

Customization: Dividends

Vanguard High Yield Dividend ETF (VYM)

- 428 U.S. dividend stocks – MSFT, JNJ, XOM, WFC
- Dividend yield = 3.06%
- Expense ratio = 0.08%
- Benefits: Allows you to own a certain subset of stocks with above-average yields.

Customization: Low Volatility

iShares Edge USA Min Volatility ETF (USMV)

- 180 U.S. low volatility stocks– PEP, JNJ, MCD, V
- Beta: 0.77
- Expense ratio = 0.15%
- Benefits: Allows you to own a certain subset of stocks with lower historical volatility (drawdown) than their peers.

Seek Out ETFs In Your Own Backyard

Commission-Free ETFs

- **Fidelity** – 85 Funds (Fidelity/iShares)
- **Charles Schwab** – 200+ Funds (Schwab/STT/Guggenheim)
- **TD Ameritrade** – 101 Funds (iShares/Vanguard)
- **Vanguard** – 55 Funds (Vanguard)

Final Words & Action Items

- **Learn more about ETFs:** Etf.com, ETFtrends.com, fmdcapital.com
- **Narrow your field:** largest, most heavily traded funds.
- **ETFs make investing simple.**
- **Focus on what you can control.**
- **First timers focus on education over action.**