

## YOUR MONEY

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### **Exchange-traded Funds Provide Flexibility**

**Q.** In your last column, you mentioned exchange-traded funds (ETFs) and a few of their benefits. Could you tell me a little bit more about them?

**A.** An ETF is an investment vehicle that contains a basket of stocks, tracking a benchmark index, but it trades like a single stock - allowing you to diversify your portfolio and use a greater variety of investment options. ETFs are not mutual funds or index funds. They are typically a lower cost and in my opinion, much more flexible alternative.

ETFs combine the construction of index funds with the characteristics of stocks. They enable investors to use the sophisticated strategies granted to equities, such as long/short and option trading, while providing the low expense ratios and low turnover benefits of index funds.

Let's assume that you want to add a certain sector, asset class, style, market cap, country or region to your portfolio. With an ETF you can do so without buying individual stocks. For example, if you wanted to add a gold hedge to your portfolio without investing directly in gold producers, you could purchase an ETF that tracks the commodity with its share price relative to the price of an ounce of gold – providing a more cost effective way to gain the desired allocation and diversification.

As well as low annual fees (MERs ranging from 0.17 to 0.55 percent) and liquidity, there are other benefits. ETFs are a straightforward concept and are transparent,

with the underlying holdings and the pricing of those holdings easily accessible. ETF managers use a disciplined approach to investing because style drifts and changes in methodology are not permitted. An ETF follows a pre-defined market approach.

Finally, ETFs can provide tax efficiency. Suppose you already own a gold stock but it has not performed well. You may be able to swap it out for a gold ETF - capturing a loss which you can carry back three years and forward indefinitely - while maintaining your exposure to the sector.

Given the flexible nature of this investment vehicle, it is not surprising to see that its popularity has grown by leaps and bounds. Today, there are over 450 ETFs globally and the numbers are rising. Investors have enjoyed the benefits of ETFs in both bear and bull markets through diversification and proper asset allocation.

On October 30<sup>th</sup>, I'm hosting a presentation focusing on exchange-traded funds. The event will elaborate on ETFs; teach investors how to use ETFs in diversifying a portfolio; discuss the use of ETFs in harvesting tax losses; and more. For more information, please contact me directly.

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