

Exchange Trade Funds give investors new tool



Dave Carey, The Examiner
Apr 26, 2007 3:00 AM (11 days ago)

BALTIMORE -

People want to make their money work for them — and with exchange trade funds being the newest fad in financial management, investors are hoping that their cash will work overtime.

Exchange Trade Funds are collections of assets set aside by investors that track an index or sector for the market, said J. Patrick Collins, a principal with Towson-based Greenspring Wealth Management Inc. Even more simply, it means that a fund manager has a pot. In this pot he gets other investors to put in stocks, bonds or other related commodities. The fund manager likes it because he gets a management fee, the investors like it because they receive an interest fee, and because they make a profit on the difference of what they purchased a share of the pot for.

(Greenspring
Wealth
Management Inc.)
J. Patrick Collins

“In our opinion, there are three major advantages to ETFs: low cost, tax efficiency and diversification,” Collins said. “We use ETFs for our clients to capture market rates of return in certain broad areas of the equity or bond markets.”

One of the largest differences between ETFs and traditional mutual funds is that mutual funds do not trade during the day. While orders for funds are taken during the day, the transactions actually occur at market close. At this time, the value of the fund is updated. ETFs are much more like stocks, as their value is continually updated all day.

Typically, the assets that are put into an ETF pot are from the same market. Among others, they can represent real estate investment trusts, international stocks, bonds or gold, Yahoo! Finance indicated. However, there are pitfalls. The funds are designed to mirror the market they are representing, but sometimes because of poor management or an unstable market, they might have negative returns.

“One potential weakness is how closely the ETF tracks the underlying index,” said Thomas Taylor, a principal and portfolio manager with Thomas Capital Management in Towson. “It should be fairly close to the return of the index, otherwise the investor is not getting what he wants. This is a concern and should be investigated prior to any purchase.”

dcarey@baltimoreexaminer.com

Examiner