

>: 5 Reasons ETFs are Superior to Mutual Funds

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I remember when I first started actively investing back in 1990, particularly how frustrated I used to get that mutual fund companies had limits on how often they would allow me to move in and out of my funds before I'd start incurring increased fees for "excessive" trading. (Which, I recall, was after six measly fund switches within a year back then!)

My, how times have changed (thank goodness)! Mutual fund companies like RYDEX and ProFunds have allowed active investors to make unlimited switches, and then these companies saw the next great opportunity with Exchange-Traded Funds (ETFs), which were still more superior to the traditional funds. Today's fast-moving markets, you simply can't afford to have to wait until the end of the day to get in or out when you need to. ETFs are exchange-traded and thus have continuous pricing throughout the trading day, just as any other stock or option traded on an exchange would. So, you have maximum flexibility to enter or exit whenever you see an opportunity or if you need to pull the plug on an investment more quickly.

1) **Lower Fees**-- While some think since there's no upfront commission on the typical "no load" mutual fund, there are plenty of hidden fees in the form of 12b-1 marketing fees and management fees from the fund company that make me *much* more comfortable paying the relatively small commission on an ETF without worrying about what's getting taken out of the back end of the typical mutual fund's fee structure.

While index funds may have relatively lower fee structures, I'm more interested in the sector-specific ETFs, and the sector mutual funds often have high turnover and higher fee structures, while also being run by younger staffers as a "proving ground" to see if they can move up to the fund company's bigger fund offerings.

I'd prefer not to be a guinea pig for others to cut their teeth on my portfolio assets -- *how about you?*

3) **Transparency** -- There was a time where you could get fairly timely data about the mutual fund holdings and assets, but that information has become increasingly older and less relevant.

With the ETF holdings well-defined and showing relatively infrequent changes, I know what I'm buying or selling when I trade an ETF or an option on an ETF. In this market, you can't afford to be surprised when a portfolio manager makes a shift in between reporting periods, and you're left to wonder why you're not tracking as closely to the sector or market in which you *thought* you would be participating.

4) **Better Options** -- Not only do I get to trade call or put options on ETFs that simply don't exist on the traditional mutual funds, but I also get a whole host of other useful choices like inverse (bearish) and leveraged (2-to-1 or 3-to-1 vs. the index's performance) ETFs that don't exist at many traditional fund companies.

The next big breakthrough is when the 401(k) industry allows individuals to allocate retirement assets into these ETFs, which will allow all of us a much more flexible approach to managing our long-term retirement savings, including more sector choices and appropriate hedges against down markets, weakening currencies and much more.

5) **Tax Efficiencies** -- Since ETFs don't have to sell their holdings to meet investor redemptions, you have a more-stable platform in times of market volatility. Plus, one of the knocks on traditional mutual funds has always been that in a good year, if you buy in later in the year right before the mutual fund declares a capital gain distribution, you can get taxed without having been along for the full ride there.

So, while it's possible an ETF could pay out a capital gain, these situations are much more rare in the ETF space.

So there you have it -- a pretty strong case for ETFs becoming more and more prevalent in the coming months and years. Maybe that's one of the big reasons why BlackRock (BLK) agreed to pay \$13.5 billion on June 14 for Barclays Global Investors, which developed the popular iShares ETFs.

Certainly that's an example of a major fund player seeking to capitalize on the growing ETF trend, and hopefully you are exploring similar ways to

add exposure to ETFs into your portfolio over time.

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