

>: Beware of Mutual Funds Dressed as ETFs

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There is \$11.7 trillion currently invested in traditional mutual funds today. Although the number is staggering, it shouldn't surprise us: the hefty fees Wall Street makes from hawking mutual funds has always made them a favorite among brokerage firms.

(I urge ALL of you who own mutual funds, or are considering buying them, to [visit this page](#) of the Securities & Exchange Commission website on fees. It's not an exaggeration to say that reading this page could mean this difference between retiring one year earlier than planned or not. Those little fees sure add up over the long-term!)

Anyway?

It wasn't long ago that ETFs (Exchange Traded Funds) were invented, and they have picked up steam BIG TIME ever since. As a matter of fact, five years ago there were just 119 ETFs that held \$151 billion. As of February 2008, there were 633 ETFs holding \$557 billion.

Why the growth in ETFs?

ETFs have grown in importance primarily because these so-called "Wall Street gurus" have not lived up to their promises or expectations. Investors have finally learned that they would be better off just indexing the S&P 500, or some other type of index, rather than paying a professional to get them returns that are often worse than the index.

In other words, why would someone pay experts to actively manage their money if they could do better passively managing their money?

ETFs have proven themselves to be a lower cost, more tax advantageous, and more liquid alternative. You can buy them just like a stock.

In business, one of the things that is valued most of all is called "switching costs"

?. In other words, the more hurdles that you have to jump through to sell your mutual fund, cancel your cell phone contract, change your health care provider, etc, the better off the business is - and the worse off you are.

Mutual funds were, and are, great for Wall Street, but may not be so great for you. It is a pain in the neck when you wish to get out of them (sell them) ... it's like trying to get out of a bad relationship.

ETFs have given the "Average Joe" control, and Wall Street hates it. We have shined the light on this industry. We have caught them with their proverbial hand in the cookie jar. We have realized that we have not been getting what we should have been getting.

This is why ETFs have become so popular!

Beware of Actively Managed ETFs

The Wall Street firms who missed out on the initial popularity of ETFs (and don't have their own ETF product lines) have been trying to muscle in on the ETF business the only way they know how - by launching "actively managed" ETFs.

They look like traditional ETFs. They smell like ETFs. Heck, they even trade like ETFs. But there's a big difference that undermines the entire point of ETFs: they have much higher fees than passively managed ETFs. That makes them look more like mutual funds with an ETF label slapped onto them.

*(The fees are not quite as high as mutual funds fees YET, but stay tuned. I think over time you will see more fees slipped into them. Remember this term: **SLIPPERY SLOPE.**)*

For example, (believe it or not) even Bear Stearns (BSC) sees the potential profit enough to make sure they got in on the game this week while they're still on life support. They launched the first actively managed ETF on Tuesday, on the American Stock Exchange under the symbol YYY. The fee to have Bear Stearns manage this mutual fund... er... ETF... is a whopping 3.5%.

(Alas, the race to dress these little piggies up as commission products has officially begun. Other companies, like PowerShares and the Vanguard Group, are also looking to get in on the actively managed ETF action as well.)

In closing?

Be skeptical of actively managed ETFs and take them with a grain of salt. The ultimate objective is to charge you more for these actively managed ETFs in exchange for "better performance" than on the passively managed ETFs. If history has taught us anything, it's that most of the time, the

only money that's made on these types of investments is for the people running them.

Until the next time?

P.S. What do you think about actively managed ETFs?



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