

THE EXTREMELY ADAPTABLE ETF CONTINUES TO EVOLVE.

# Full Bloom

By Stephen Crowe

ETFs with expense ratios around 15 basis points, helping us offer clients an extremely low cost for our advisory services."

Financial advisors have been early adopters in using ETFs, but their current ranks may be only the tip of the iceberg. "While many financial advisors are already using ETFs, there's still a significant number of advisors out there who are interested but haven't pulled the trigger yet," says Tom Lydon, editor of *etftrends.com* and president of Global Trends Investments, an independent advisory firm based in Newport Beach, Calif. "At Global Trends Investments, we use ETFs as asset allocation tools, as well as tactical resources." To help explain the benefits of the funds to his clients, Lydon recently co-authored the book *iMoney: Profitable ETF Strategies for Every Investor*. "Over the past 10 years, classic asset allocation models haven't been as favorable to advisors in terms of generating returns," says Lydon. "I think we're seeing an increasing number of advisors expand their asset allocation models by using ETFs to include areas that weren't as accessible as before, such as currencies and commodities."

## MORE CHOICES, RISING COSTS

While the first generation of ETFs continue to emphasize low fees and broad market exposure, many of the newer funds arriving in the marketplace don't fit the conventional mold. A typical index ETF may charge from 15 to 40 basis points, while expense ratios for leveraged, fundamental and actively managed ETFs can range anywhere from 25 to 75 basis points, depending on the objective and the manager of the fund. "ETF fees have been escalating for the past several years, so you want to know exactly what you're getting before you invest," says Ferri, who describes himself as a "plain-vanilla, low-cost index buyer." While Ferri's first priority is keeping expenses low for clients, he notes that some of the newer products on the market today may be useful for advisors who are using them to replace higher-priced products in a client's portfolio—such as actively managed, open-end mutual funds. Advisors may also find these new ETFs valuable for a specific tactical purpose, such as hedging risk in a volatile market.