

## The Evolution of ETF's

By Dr. George Yang

One of the largest trends in the investment world over the last decade has been the rise of Exchange-Traded Funds, or ETFs. An ETF is an investment vehicle designed to track the movement of a market index or benchmark. Like mutual funds, an ETF can hold a basket of securities to provide necessary diversification, however ETFs have shown to be more flexible in that they can trade at any time the stock market is open. For those who appreciate liquidity and freedom within their portfolio, this type of investment could be perfect. In addition, ETFs are created in such a way to offer greater tax efficiency and significantly lower costs than most other types of investment vehicles. As of recently, they can also be traded without any commission at most major brokerages.

Despite being around for over 25 years, it was not until the last 10 years where we started to see exponential growth and popularity among both consumers and advisors. In just the last decade, the number of ETFs has doubled to now offering over 2,200 different strategies. The amount of assets invested in these vehicles have also grown from \$1 trillion to over \$4.5 trillion. Moreover, we have seen a consistent trend of money leaving mutual funds and going into either index funds or ETFs.

In the beginning, ETFs were known to simply track a major index, however the last few years have brought to light hundreds of new strategies that offer much more to an investment portfolio. Beyond the everyday S&P 500 index and sector indexes, you can now find ETFs that play a more active role such as hedging risk or aiming to provide a higher than average market return. With such a vast array of choices, it is safe to say that there is an option for everyone. If you are looking for an ETF that focuses on work-from-home solutions or vaccine beneficiaries, there is an option for those. If you prefer an ETF that could benefit from a comeback in the travel or entertainment industry, there are options for those. Perhaps you like solar energy, online retailers, regional banks, artificial intelligence, or technology leaders. What about gold, commodities, agriculture, options, currencies, bonds, etc.? There are even options for socially responsible investing or possibly an ETF that invests in companies where woman leaders are at the helm. Another innovation are ETFs that are designed as defined outcome investments where they guarantee a floor or buffer for market downside protection without capping upside returns; a great alternative to the common non-liquid and higher cost annuities. Nowadays, it is no wonder why stock picking has become a thing of the past as almost anything you want to invest in can be achieved through utilizing an ETF.

Competition and continuous innovation among ETF providers have resulted in ample choices for us as investors; however, selection, maintaining of risk parameters, creating tax efficiency, aligning your allocation with your retirement objectives, and providing ongoing management and research is no easy task. Our goal as advisors is to keep the message simple and the solution customized.

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