TRANSCRIPT

Comparing ETFs: What you need to know and why

Presenters: Steven Travali and Michael Keating

STEVEN TRAVALI: All right. Thank you again for joining us. My name is Steven Travali. I'm a regional brokerage consultant for Southern California.

I help clients navigate the tools and resources that Fidelity has to offer, helping them utilize mobile, website, also our active trader pro suite as well and making sure that they're utilizing those tools efficiently as they manage their assets.

It's been 2½ years since we've done an event. And we're really excited to get back out here in the open. With that, I'm going to let Mike introduce himself a little bit, tell you a little bit about his background, and then we'll get into the session.

MICHAEL KEATING: Thank you, Steve. And it's good to be here. Excited for the next hour to be in front of everyone. Again, like Steve said, this is our first in-person event in a while, so appreciate everyone taking the time to join us today.

Just to give a little background on myself. I work for BlackRock. I support our iShares business. I've been with our firm going on 14 years now. So, it's been a while, and I have to say I'm from New Jersey, so I talk a little fast and loud. So, I apologize in advance for that.

But again, I'm really excited to be here to talk about ETFs. My role here at BlackRock is supporting the Fidelity relationship. So, a lot of what we do is we provide education like we're doing today. And we feel that it's the right thing in terms of us being the largest ETF provider in the world[1], iShares and Fidelity, one of the best ETF platforms in terms of trading and buying and commissions and things like that. So really excited to be here. I appreciate your time, and I'll turn it back over to Steve.

STEVEN TRAVALI: All right. So, we're going to do a question-and-answer session. Mike and I are going to go back and forth. We're going to talk about a few things. One of the first ones is we're going to talk a little bit about the industry itself. Right. And then you want me to run the slides?

MICHAEL KEATING: Sure. If you don't mind. And Steve, what we didn't tell people is that we've been working with each other for a long time now. Right.

STEVEN TRAVALI: Yeah.

MICHAEL KEATING: Going on 10 years, right?

STEVEN TRAVALI: That's correct. So, I was actually with Mike when he first got promoted to handle the Fidelity relationship, and I remember that moment very well. I was very excited, and Mike was a former Fidelity alumni as well back in the day.

MICHAEL KEATING: Yes. So again, excited to work with Steve. I did spend nine years at Fidelity prior to coming to BlackRock. And again, in terms of speaking fast and loud, I get really excited. We're talking about ETFs. So again, bear with me. So, like Steve said, as you guys can see, some of you have seen this slide already. But I always feel it's really important to show this.

To really digging deeper into the tremendous growth that we've seen in the ETF industry really over the last almost 30 years now. One thing I want to mention, does anyone remember what happened yesterday? Whose birthday it was yesterday, 15-year birthday? Steve, the iPhone. So, think about that.

So, think about this, and I compare this often to ETFs, the growth of ETFs. And a lot of what we saw yesterday if anyone was watching CNBC constantly is how the iPhone changed simply society in terms of the way we interact, in terms of the way we shop, the way we interact with our friends, our family.

I have three kids at home and all I do all day is get off your phone, you need to take some time off your phone. That's all they do. I have a 14-year-old daughter. But the way I compare ETFs is truly thinking about the iPhone and how it transformed society, how it's changed everything.

The way ETFs have simply transformed the way people can invest, what that's delivered to individual investors like all of you. And like Kristy had said earlier, how it's leveled the playing field in terms of the low cost of ETFs delivering individual investors the same types of products that are available to institutions, some of the largest investors in the world at the same cost. Think about that.

So, what I really love to show is this slide because this tremendous growth is continuing. Something that we saw last year was roughly a trillion in money came into ETFs last year for 2021. This year, globally, we're already up to over $400 billion that has flowed into ETFs in a very challenging market.

And one thing I'd like to show is when you look at this, really the tremendous growth has come post financial crisis. Right. In 2008 and 2009, you see this growth within the ETF industry. And a lot of that comes from investors looking for low cost, looking for transparent investments. And like we said before, ETFs tend to be more transparent than others where you can actually see the underlying holdings on a daily basis, exactly what that ETF holds.

So, think about the financial crisis, where things were hidden. You didn't know what you owned a lot of the times. Well, that's where the growth within ETFs have come over the last now going on 15 years post financial crisis. So, it's really interesting. And I would also say that it's actually transformed the asset management industry, become one of the fastest growing segments of the asset management industry.

And it's also one of the fastest growing segments for individual investors as well, ETF adoption. So, I also want to talk a little bit about where we're seeing that growth. So, you guys have heard from Kristy, you heard from Jay. There's several different areas of growth within the ETF industry, and the other thing I want to say there are several different investors.

There's institutional investors. There's individual investors like yourselves, and a lot of times, we get the question, hey, how do I use an ETF? What's the best way? And what we always say is, it's different for every investor. So, every investor uses an ETF in a different way.

Some tend to blend with ETFs and mutual funds. Some will use them in certain areas of their portfolio to gain access to certain trends, certain sectors, certain areas of the market. And some investors will use ETFs simply to build an entire portfolio out.

So, when we look at the next slide, and you look at where we're seeing this money coming from and where it's going into, think about this. If you're an investor, you have several options on when you're going to use an ETF or how you're going to use an ETF. So, what I look at often is-- and you guys have heard a lot about these ETFs here today-- IVV. Right.

So, as you can see there, that's one we're highlighting, that is giving investors exposure to the S&P 500 Index. And if you look at the cost, which is really interesting, 0.03%. So, three basis points to have direct exposure to the S&P 500. So, what we look at here on the left-hand side, this is what we call the core or the building blocks or the foundation of a portfolio that we believe investors should have within their portfolios before they end up kind of trying to get into all these satellite investments.

So IVV is a large cap ETF. You have IJH and IJR. But what these also allow you to do, if you're a more hands on investor, it allows you to make choices in terms of what percentages you want to have within your large cap, mid-cap, and small cap exposure. So, if you're more hands on investor, you can actually dial up or dial down certain areas of this allocation here.

So again, large cap, mid-cap, and small cap. But what that also does if you're less hands on, you don't want to have to do the research. Well, guess what? There's another ETF out there the ticker is ITOT. Now, what this ETF is giving you, this is a one stop shop. It's giving you exposure to the total US market. So large cap, mid-cap, and small cap.

So, in one trade, you get exposure to a completely diversified US equity portfolio for, again, 0.03%[2]. Think about this one also, there's over 3,500 individual stocks in this ETF, ITOT. So, when we talk about diversification, what does an ETF provide? It provides a diversified basket of stocks or bonds.

I mean, I think that's pretty diversified. Over 3,500 individual stocks within this one trade ITOT. So, then we open it up on the fixed income side also where you have AGG, which is one of the largest fixed income ETFs. It has over 10,000 bonds within that ETF.

So that's what we call the core. So right there, you're getting your equity, you're getting your fixed income exposure. And again, this is for investors that want to have more hands-on approach to their portfolios. They want to be involved. They want to maintain a specific allocation to different market caps, different fixed income, different equities.

And in the middle there, it's the other end of the spectrum. This is where if you're an investor, you simply just want a portfolio of ETFs. These are what we call our asset allocation ETFs. One to point out here is these range anywhere from conservative to aggressive. You have a balanced portfolio; you have a growth portfolio.

And all of these for a low expense ratio of 15 basis points or 0.15%. Now, these ETFs again allow investors to simply plug into a portfolio of ETFs. And what happens is the portfolio is actually rebalanced twice a year to maintain that specific risk tolerance.

So, for instance, one on here is AOR, as you guys can see. That is what we call the iShares growth allocation. So, you're getting a portfolio that's maintaining a growth strategy between equities and bonds. And again, it's rebalanced twice a year, and you have roughly roughly seven iShares ETFs within that specific fund.

And the other thing to mention here, there's almost 20,000 securities that that fund represents through seven ETFs. So again, you get that one stop shop, that individual exposure to a portfolio of ETFs. And we've rebalanced it, again, twice a year. And then last but not least is our megatrend suite. This is what we say for investors that may have already a portfolio that's built, and they simply want to take advantage of certain themes within the market.

You want to overweight your portfolio to potentially technology or like Jay was mentioning before, self-driving cars, electric vehicles, cybersecurity, infrastructure. This is what we call our megatrends suite. We have three here that we're highlighting, but there's 22 different type of themes that you all can gain access to within your portfolios.

So again, just to tie up this slide here-- I know I said a lot there Steve. Again, this is where individual investors ask us all the time how do people use ETFs. Again, it's different across the spectrum. Every individual investor is different.

But these are just some very high-level ways that we're seeing investors using it, where you're taking a more hands on approach all the way to the other side of it where you're just plugging into one ETF. And we're actually doing the rebalancing for you. So, with that, I think we are going to go into just some ways that you can access that on.

STEVEN TRAVALI: Yeah. And remember, the Fidelity website has an analysis section. Right. So, all the data from these ETFs is fed into the Fidelity website. So, if you were to own three or four of these, and you're going to take a step back and go, well, what's my large cap, mid-cap, small cap exposure? Right.

You're going to be able to pull up that analysis section, it's going to tell you what your sector exposure is, putting in the data itemized from each of these funds. So, you should be looking at that material and that information before you make decisions of like, OK, well, I really like this specific mega-cap trend in technology, but what's my sector technology exposure already?

Is it overweight, underweight? I consistently ask clients what that sector exposure looks like and what their economic thesis is and why it looks that way. Because a lot of times, you'll find it just happens to be what they saw on CNBC. And they buy this, they buy that, and before they know it. They're 80% overweight in one area versus another. And they don't really have a reason why they are there.

So just to give you some comments on this slide as well. So, looking at some ETF use cases for seeking income diversification.

MICHAEL KEATING: Yeah. So, on the next slide here, I think what we want to show here are some of the larger use cases within the ETF market right now. And I'm sure a lot of people like income. Right. Many people are either at, in, or near retirement looking to start to generate income within their portfolios.

Here, at iShares, as you guys learned earlier, we do have a suite of income generating ETFs. Now, how you generate that income can be a little bit different, or you have several options, I should say, when you're investing. And it could be through what? It could be through bonds, right which most people historically are used to generating their income through a bond allocation.

So, if we go to the next slide, I think it shows the two ETFs that we want to highlight. One here is HDV, and the reason I always like to highlight this specific ETF is because we always get questions around clients, again, that are at, in, or near retirement that are generating their income through either a bond allocation or dividend paying stocks. Right.

So, here's the cool thing with ETFs, there are several ways that you could do it. One to highlight again is HDV, and this is giving you, as an investor, exposure to a diversified portfolio of dividend paying stocks. Now, I know we talked a lot about the different ways that you could do it. Different indexes. This specific index is focusing on high dividend bellwether quality companies.

So, you own a basket of these types of securities. I always bring this up, because one question I always ask when we used to do these in person, we'd would just be saying, by a show of hands, how many in this room-- and you don't have to do this, but it's just an example-- own dividend paying stocks.

And you would always get a large majority of the investors raising their hands. And then I would ask, how many of you own that individual stock because it's paying you a dividend, because you actually truly believe in that company? And what a lot of people would say is, well, it's paying me 3%, 3 and 1/2%, 4% this dividend paying stock.

Well, again, we talk about diversification. So, if you're not truly focused or have the research or bought into that individual stock, well, that's where we see many investors simply plugging into a dividend paying ETF, where you're getting, again, a diversified basket of stocks that's paying you a dividend every quarter.

So, getting outside of, again, that individual company risk, you're moving into a more diversified basket. So, one is HDV. We've seen tremendous flows into that this year. Quality companies tended to outperform year to date in this tumultuous market.

But again, it's also paying a dividend. And then the other side of it are bonds. And again, I think it's the same story around diversification. If you're an investor that's in individual bonds, and you're comfortable with that, that's great. But if you're saying, hey, I'm not comfortable owning individual bonds, or you're not doing the research things like that, another option or another choice would be doing it through a fixed income ETF.

US AIG, this is one of our most diversified fixed income ETFs. It's roughly the same thing as AGG, roughly I think it's around 9,000 individual bonds within that underlying basket. And again, so you're getting that diversification, you're maintaining that income in your portfolio and building out that way. I think there's a couple of things we want to show also in terms of comparing maybe some of these on [INAUDIBLE]. Did you want to add something, Steve?

STEVEN TRAVALI: What I'll do is I can jump. We can flip back and forth and make it pretty seamless. Let's see.

MICHAEL KEATING: The other thing to mention also we talk about fixed income ETFs. That's one that we just mentioned. One of the fastest growing segments of the ETF industry has become fixed income ETFs, where you're seeing not only a portfolio like that that's diversified across many different segments of the fixed income world. But there's also fixed income ETFs that are more focused on it could be high yield. Right.

It could be simply investment grade bonds. It could be short term investment grade bonds. Things like that. So as investors, you have that choice of how to dial up or dial down your fixed income allocation.

STEVEN TRAVALI: So here, we can take a look at a little bit of differences. I mean, these are pretty vastly different. But total bond market versus core high dividend. Right. We can see they're both open end investment. Equity versus fixed income here. We have a little bit of tracking error. Mike, do you want to talk about some efficiency here and tracking error?

MICHAEL KEATING: Yeah. So, efficiency, that's a good question. So, if you look at, I would say, many ways that investment managers or ETF firms the way we compare how well we're actually managing the fund is that metric there, where how well do you actually track the underlying benchmark or the index that we're tracking. How well do you actually track that?

And a lot of times some of these metrics that you could see on fidelity.com, if you're comparing ETFs, this could be one of the metrics that allows you to make a well-informed choice. Because if you see larger tracking error, that may not be a really great thing.

So, looking at expense ratios, looking at tracking error, that could be another component to help make an informed decision on which ETF to actually own.

STEVEN TRAVALI: So, looking in composition of HDV itself, so we can see some very well-known companies here. Mike, how fast would a company lose or get out of here? I know recently, not to name names, but I have remembered in recent times a company stopped paying dividends. Right. That just paid dividends for a very long time. What would be the turnaround time or procedure there?

MICHAEL KEATING: Well, so HTV is actually in some ways is more active than other ETFs out there. So, this actually has a quarterly rebalance mechanism. So basically, it's looking at specific screens, and it's placing those rules as to why a company can be in this index.

And every quarter, those rules come into effect. So, if a company actually stops paying a dividend, at that next quarterly rebalance, it will be removed. And the next stock in line will be added to the ETF. So that's more of a, again, quarterly rebalance. Many other index-based ETFs are not as active. But I think that gives it some good metrics in terms of measuring the dividends and measuring the companies that are in there.

STEVEN TRAVALI: Let's catch up. All right. So, let's talk about diversification a little bit. Obviously, ETFs are going to give you a great-- they have great ability to diversify with one single click in a trade. I guess-- give us some thoughts around this slide if you were holding Apple, for example. And then I'll go into the website, and we'll look at maybe how to find some replacements using a single stock as well.

MICHAEL KEATING: Yeah. Well, this is-- I love this slide because this-- again, the growth of the ETF industry-- some of that growth has come from people and institutions, individual investors, and institutions, again, moving away from individual stocks into ETFs. Not saying everyone. But again, if you're not completely confident with that underlying individual stock, then you can buy either the sector or that same kind of industry that it's in.

One example that we use here-- Fidelity, on the fidelity.com, has a really good way of looking at an individual stock and comparing it to specific ETFs that have high allocations to that underlying individual stock. So, we brought up an example with Apple. It might not be the greatest time in the world to bring up Apple, but--

[LAUGHTER]

It is a question we get often, because how many people own Apple in their portfolios? And again, this 15-year--

STEVEN TRAVALI: 15-year anniversary of the iPhone, right?

MICHAEL KEATING: Exactly, yeah.

STEVEN TRAVALI: So, it's only natural that we use them, OK. So, if we were looking at Apple-- and let's say we jumped into our portfolio. We had a stock that's sitting in there. Maybe it's performing badly. We have some losses that we may want to capture. But we don't really want to lose the exposure overall of that sector or industry.

We're going to jump into the research page of Apple itself. I like to just hit on View All, and we can just peruse as we move down. We can see all the great information that we have on an individual company, News, Events, a full profile. I think everybody knows what Apple does.

But we can get an idea of earnings. All the way down here towards the bottom, we can even get as much into the statistics and even financial statements. If I want to see all the assets and liabilities for Apple in the last five years, I can pull up more. I can look at all that detail, are they doing better or worse in specific areas, and top competition.

Well, really, what we want to get towards is the bottom here, in Other Ways to Invest in Apple. So what this tool does is it says, if you don't want to lose the exposure to Apple or you like this company for one reason or another, and you want to invest in it, but you may not want to take the risk of buying that individual company on its own, you're looking to do so in the wrapper of an ETF, well, here are the ETFs that own the most of Apple.

So XLK owns 23.59%. We can see-- moving down, we've got IYW, IXN, IWY. And we can see the percentage that that particular ETF owns of this company. So, if I were to sell Apple today and capture a loss, or maybe I just thought there was too much risk in terms of the concentration of it, this is an easy click of diversification without really losing access or exposure to that particular area.

MICHAEL KEATING: Steve, can you compare some of these, so if you look at the top, say, three or four, in terms of just--

STEVEN TRAVALI: Yeah.

MICHAEL KEATING: If people are like, OK, great, I see that there's a list of these ETFs that own Apple, how can you make choices from there in terms of expense ratios and things like that, but just lining them all up?

STEVEN TRAVALI: Yeah, so let's look at IXN, just to keep it clear. And then, as we pull into this, then we're just going to go into Comparisons. So here, now I'm looking at IXN, and we've got QQQ, KOIN. I can see what's passively managed. So, these are all passively managed.

I can see the net assets. I can see the gross expense ratio. I can see the net expense ratio. And I know, Mike-- I know you had some commentary on net assets and liquidity and things like that. Do you want to-- it may be a good time to talk about that.

MICHAEL KEATING: I think it's a good time. And I think-- everyone, first off, you've been here for a long time now today. And people that are online and wondering, all right, there's many ETFs out there. The ETF industry now is up to $10 trillion in assets under management, growing significantly.

What are some things that you should look at, and what makes an ETF liquid when you're going in to buy that ETF and making sure that you can sell it at a proper bid-ask spread? Well, a lot of it-- a lot of time, it's assets under management. It's volume. So, the larger an ETF is-- and that's why we say a fund like IVV that we talked about before, ITOT-- that has that mass engagement where it's allowing that fund, because of the assets under management, to be pretty liquid in terms of being able to actually buy it and sell it at a pretty low cost.

So, I think we talk about the flagship ETFs, the large ETFs like, again, IVV, ITOT, AGG, that's another one on the fixed income side, that have those assets under management to allow it to be more liquid. And I think there's some ways that you can see that on fidelity.com as well.

STEVEN TRAVALI: Yeah, I can switch over to IVV. And we can take a look at that as well in the same screen and Comparisons. Let's see here. And then, obviously, as you're looking at those net assets, B is for billions. M is for millions.

I think we all know that, but just in case. It throws people off every once in a while, when they see an M and they're like, wait a second. That's not-- That's $36 million compared to $13 billion. That's a pretty significant difference. And then you go over here to IVV. We're looking at $300 billion. And then, likewise, we have our expense ratios as well netted out there.

MICHAEL KEATING: And that's another, again, good example of the cost. So, ETFs tend to be low cost. That's one of the pillars to an ETF, 0.03% versus one of the bigger ones out there in the industry, which is 0.09%. So, I think this is a good example of looking at some of these S&P 500 ETFs and the difference in these expense ratios.

STEVEN TRAVALI: So, Mike, in terms of all cash, if I'm looking at it just buy the market, what does that look like?

MICHAEL KEATING: Yes, Steve, I think it's different for every investor. But it's a good question because a lot of people-- what we're seeing now is that-- whether it was right or not, people have moved some of their portfolios to cash. So eventually, getting back into the market, you want to own ETFs. You want to start to implement ETFs into your portfolio.

Like I said before, there's many different ways to do that. But I would stick to, again, the low-cost flagship ETFs like we've mentioned here today, some of these ETFs that are giving investors that core exposure, like maintaining large cap, mid-cap, small cap in your portfolios, so the building blocks, a strong foundation. I think that's important to start out if you're buying ETFs.

Maintain these large tax-efficient ETFs. That's a good way to start. But also, there's other ways to actually build around that as well, where you can use some of the megatrends, dividend-paying ETFs as well.

STEVEN TRAVALI: Right, and you can always use limit orders, dollar cost averaging. It's not a one-stop solution. You can look at-- in IVV, you can look at the target price today at $378. And let's say I want to buy a couple hundred shares at $375, $350, $360, all the way down. Providing it goes down there, it’s going to hit my limit orders. It's going to buy. If it doesn't go to my price, it doesn't buy.

MICHAEL KEATING: So, Steve, what would you say to an investor, because you're meeting with investors every day, that comes in and says, hey, I want to start to buy ETFs. I have cash in my portfolio. How do you approach that?

STEVEN TRAVALI: Yes. So, you could look at iShares IVV, for instance, at $378. And let's say you're looking for a 10% discount off of that. You're going to take out 37 bucks, give or take. And say, all right, I'm going to put it in a limit order to buy that. That limit order is going to sit there for six months.

And then you can even put an alert on the website to let you know via text message before that order expires. And you can go in there. You can reevaluate it. Say, all right, well my 10% down's no longer viable. It doesn't look like it's ever going to hit. Maybe I should adjust that. Maybe I want to lighten that up to 8%. Or maybe the index has just moved up significantly to where you want to reevaluate that.

And there are several things I can do right here. I could just start to set alerts. I won't go too deep into that. But I can start to set alerts. I can set price alerts, say, hey, tell me when iShares IVV goes to $400. Because at that point, maybe I want to reevaluate my limit order. It's no longer viable. I want to say, all right, well, maybe I'll move it up to $390, $395. Or maybe that's a support and resistance level that I've seen on a chart that I'm now comfortable with making a purchase.

So just the different ways that you can look at investing. And also, it's a major advantage for ETFs versus mutual funds. It's one of the things that ETFs offer that mutual funds can't, is that ability to dictate that buy limit, where a mutual fund, you have to place in dollar amounts and you get the closing NAV of the day. There's really no ability--

I can't tell you-- I was on the trading floor of Fidelity back in '08, back in the day. I can't tell you how many times I talked to investors at 2:00, 3:00 in the afternoon, looked great, thought we were going to close in an up market, turn right around in the last hour, and people that were selling mutual funds didn't get the prices that they wanted. And it's a shame because, had they been trading something that was liquid like an ETF, they would have been able to predict exactly what they were getting at that moment because of that increased liquidity.

MICHAEL KEATING: And it's also important, I think, to talk about-- we always talk about trading ETFs. And some people may think-- well, it's only active traders that buy ETFs because you could trade them throughout the day. That's completely wrong. What we do see is many of that $10 trillion in assets under management for ETFs, a large majority of that are buy and hold investors that are simply using ETFs, again, for the low-cost exposure.

But they're getting that extra level of risk management where, like Steve said, if you need to buy it or sell it during the day, you have that option. So, I think it's important to mention that, that it is across the board in terms of the people that are buying. It is active traders, but it's also buy and hold investors that are owning portfolios for the long term.

STEVEN TRAVALI: Yeah, and you can see the bid and ask size and spread right here in real time as I refresh. We've got $379.94 by $379.95. Does it get any thinner than that, Mike?

MICHAEL KEATING: You tell me. I don't think so.

STEVEN TRAVALI: It's about as good as it gets right there. Should we jump back to the presentation?

MICHAEL KEATING: Yeah.

STEVEN TRAVALI: Yeah. I am extremely happy I've not lost my on-the-fly tech skills.

MICHAEL KEATING: Yeah. I think a little bit of what we'll talk about next is just looking at the transparency that ETFs provide. Again, investors, you guys have heard transparency, low cost, tax efficiency, being able to actually pop open the hood-- I always say this, pop open the hood of the ETF any time you want and get the daily holdings. So, looking at the underlying portfolio, being able to see what it owns down to the exact percentage. So, I think that's one of the absolute pillars to an ETF is the fact that they are extremely transparent.

This is showing, again, our flagship ETFs, which is IVV, IJR, which is small cap, and IJH, which is the mid-cap ETF, looking at some of the holdings down to the percentage. But again, post financial crisis, this actually came into effect, where people were like, what does my fund own? Back in 2008 and 2009, my fund was down 30%. What did it own? Well, again, ETFs, you can actually pop it open and see exactly what it holds as of last night.

STEVEN TRAVALI: All right, so some ETF sector flows. So, we see some movement here, all the way from health care to financials

MICHAEL KEATING: Yup. This is just-- again, we're in an extremely interesting year in the stock and bond market. This just shows the wide dispersion in terms of returns. And it funnels into the fact that, if you're an investor, again, maintaining that asset allocation between your stocks and your bond allocation.

But if you're an ETF investor and you want to access any of these sectors, again, the beauty of an ETF, or the beauty of the ETF industry, is that there are sector-based ETFs out there as well. Fidelity's got a really good lineup of sector ETFs out there that are specifically focused on investors being able to pinpoint specific areas of their portfolio to overweight or underweight.

And again, having that core, that bedrock portfolio between large cap, mid-cap, and small cap. But then if you're an investor that wants to be more hands on and overweight certain sectors, you could do that through ETFs as well.

STEVEN TRAVALI: All right. We can-- do we want to talk more to these slides, or are we doing--

MICHAEL KEATING: Yeah, this is pretty much checking the boxes here, what's your investment objective. And I'm sure all of you have that. You're either working with an FC or an RBC at Fidelity or you're doing it yourself. But you know your goal. Are you in retirement? Are you nearing retirement? Are you growing your portfolio?

The other thing we all also talk about is what's inside your fund. What's inside either that mutual fund or the ETF? And again, with ETFs, you can pop it open, see exactly what it owns. The other thing is manager. Who is actually managing that ETF?

And like I said before, $10 trillion in assets within the ETF industry. There's many ETF providers out there. IShares is one of them. Again, I say we are the largest. I obviously represent iShares, but we are the largest ETF provider in the world. But a lot of what we say is, we feel very confident in our ETF suite, the fact that we do have flagship ETFs that have been around for 15, 20 years that have the liquidity, have the tax efficiency. So, know the manager that you're putting your money into with ETFs because there's many new managers coming online within the ETF industry as well.

And then last but not least, how much are you paying in total? And Steve went over this a little bit. It's popping open the hood. What's the expense ratio? What's the tracking error? Is there a large tracking error? If there is, then there could be something that you'd want to look at with that fund.

And last but not least, how tax efficient is that ETF as well? Has it distributed capital gains in the past? Because again, like Kristy said earlier, ETFs-- the tax efficiency within ETFs is one of the pillars. So, it's very important to look at all these and wrap it all into one and make an informed decision.

STEVEN TRAVALI: Yeah. So, in terms of looking at some question and answers here, I got a great one that starts us off with-- you're going to like this, Mike. "I own ITOT. I also own IVV, IJH, and IJR." So, this is a great start, right? "Is there a strategic reason to own all four of these? Is it just way too much over? Should I be allocating for one versus another?"

I think they're a great complement to each other. I don't think there's much overlap there. And also, in my thought-- and I'll turn it to you. But you're giving yourself the ability to have a small cap stock that grows into a mid-cap stock that grows into a large cap stock. And you're not going to lose it. It's going to stay in your mix of allocation through that.

Because at one point, Apple, that we used as an example earlier, probably more than 15 years ago, was a small cap stock at one time. So that's a great thing to keep in the portfolio through that growth progression.

MICHAEL KEATING: Yeah. And I also think what that type of strategy allows investors, like I said before, is you could be more hands on. So, you do own ITOT, which is the total market. But then you're also using other components where you're getting that large cap, mid-cap, small cap exposure.

But you could be more hands on by dialing up or down. So, if you have-- if you think mid-caps are going to outperform, well, you can actually plug in more to our mid-cap ETF. So, you can overweight that. So, you do have that core through ITOT, but you can actually overweight mid-caps through IJH.

So, for investors, it could be-- if you're more hands on and you want to do that, then that could be a good strategy. So, there's really no right or wrong answer to that. It all depends on the type of investor that you are.

STEVEN TRAVALI: It started out great with, I own all of these.

MICHAEL KEATING: Yeah, I know.

STEVEN TRAVALI: How should we interpret the rating for certain ETFs? Is the two stars versus four stars-- does two stars mean I should buy it? I know I once read an article--

MICHAEL KEATING: I'm going to put that one on you because that's on the Fidelity website, right?

STEVEN TRAVALI: I once read an article that there are no five-star funds-- or there are no six-star funds. Fives can only go down, but-- I think a lot of that is comparatively from one to another. And as you look at the world of ETFs, like if we just look at all iShares in general, we can certainly look at that if that is a focus.

I think Morningstar has a great rating. And they've got a great system behind that. And we can take a look at-- [VOCALIZING] we should be able to see some considerations here, Analyst Rating, Morningstar, and FactSet. So, if that is something that you're interested in, I can certainly look and say, all right, well, maybe I do only want to look at five-star funds. It's not like you guys don't have enough of them. Or if I'm interested in five and four, I can always select down my criteria and take a look at that.

I would argue performance is going to be probably a bigger factor. I probably would buy a two-star fund if it was beating the others. Sometimes it matches with the Morningstar ratings, but not always. And you always want to think about what's up and coming, too, like what sector's coming around. Because what may have just gotten beat up could be at a great buying opportunity as well if it's very sector specific.

MICHAEL KEATING: Yeah, I think the way we look at it-- if you go to iShares.com, we don't show any Morningstar ratings because I feel that a lot of the Morningstar ratings are based on active managers, how well they outperform and things like that, so-- yeah, so it's a tough-- I think it's a tough metric to compare.

STEVEN TRAVALI: This is a good question. So how many ETFs should you have in a portfolio? I would say as many as you feel you can manage. But again -- you start to look at deficiencies in your portfolio or you're looking at thematic trends or something like that you're trying to overweight, adding an ETF is much easier than adding 50, 60 stocks.

MICHAEL KEATING: Well, and I also look at-- again, it's going back to-- I hate to bring it back to this every time, but the type of investor that you are. Are you the type of investor that wants to maintain a very large allocation of ETFs? Or, like we mentioned before, are you more hands off and simply, hey, I can plug into this large, mid, and small cap total market index where you have one, two, or three ETFs versus whatever it is, five, 10, 15.

So, it all depends on the type of-- really, the type of investor you are and if you have different ideas. And if you do have-- you're doing research, you have specific ideas, then maybe that's a good thing for you. And I think that's, again-- the really cool thing about ETFs is that you can do both sides of it.

STEVEN TRAVALI: Here's a good one for you, Mike*. "If I'm a buyer of a six-month CD, is there an ETF that could handle the same objective?"

MICHAEL KEATING: For CDs-- we do have ETFs that are fixed income, very short duration fixed income.

STEVEN TRAVALI: So, I'll go I'll go to iShares ETFs for Income. And I believe there's a number of government ones that are pretty self-explanatory. We've got some Treasury bonds, 20-year, 30-year.

MICHAEL KEATING: Yeah, so the great thing about this*-- so what we have here is very short duration. Again, what we mean by short duration is like portfolios that own very short duration bonds, anything that ranges anywhere from six months out to 10 years. And you could have a portfolio-- one, for instance, is ICSH, "I-Cash," that has similar type securities. And it's giving a little bit more than what you're getting, say, in a money market.

And I think that's what a lot of people are doing. They're moving from money markets into these six-month CDs to get a little bump on the rates. So, there's many choices that we do have. I would definitely go to the iShares landing page under ETFs for Income and take a look. But these are some of them that we see here.

STEVEN TRAVALI: This gives me the ability to throw duration right in the mix right here. So, I can put Duration as a column and sort by it or take a look at it. I can see what's very high to what's very low. And I can start to dial down and focus on what I'm looking at in terms of that duration. So, I can look at low and very low, and I can dial that back.

***** *On-screen disclosure [NOTE: Unlike the exchange traded funds, bank products are FDIC-insured. Unlike the fund's yield and return, the interest rate on most CDs does not vary. The fund's share price will also vary.]*

And once I add in these columns-- every column here is sortable. But the newest column that I've just added will automatically sort. And then all I got to do is just reverse that if I want to focus on the lower end. I just bring that right up, and there's an IGBH, which is the interest rate, hedged short-term corporate bond ETF, doesn't look like. But you can see I've got some Treasury floating rate there at the top at 0.01%.

MICHAEL KEATING: Yeah, and what have-- just from a client perspective, what have you seen clients concerned about or overweighting now that rates are increasing? Not kind of, they're dramatically increasing from a fixed income perspective. Where do they want to be less sensitive?

STEVEN TRAVALI: Yeah, I've seen an increase towards floating, I think has gotten more attention, a lot of inflation protection with a misunderstanding of how some of that works, unfortunately, too. Because a lot of the inflation protection stuff, while that is the goal, it's trying to protect against unforeseen inflation, not necessarily current inflation. That's typically priced in. Take that with a bit of a grain of salt, but I mean that's typically how those are looked at. But yeah, huge focus around short duration and floating rate, I'd say.

So, we got, "Does iShares have any special impact ETFs, organizations more interested in benefits to mankind where I can find this type of ETF?" So, do you have-- I think ICLN might be a pretty good example, but are some others that may be more focused on environmentally friendly aspects?

MICHAEL KEATING: Yeah, so we do have-- that's where our ESG, so our sustainable suite, comes into effect, where we have a whole suite of ESG ETFs that are focused on more environmentally friendly companies that have higher ESG scores. We do have a specific ETF called ICLN, "I-Clean," that's focused on clean energy, which is cool. So yes, we do have those. And those can all be found right on fidelity.com.

STEVEN TRAVALI: Yeah, so if we look at the iShares Global Clean Energy-- I believe we looked at this one earlier as well, but just to pop open the hood for just a second. You'll notice a lot of the names here are some you recognize, some you don't. But again, it's a great way to save yourself some research in that area.

MICHAEL KEATING: Can you compare that-- oh, so those are-- if you compare that to other-- Yeah.

STEVEN TRAVALI: You want to look at this versus-- what's the other one? You want me to do a comparison?

MICHAEL KEATING: No, those are-- yeah, that's it. Because it just gives a good idea of what's out there and looking, again, at the measurements in terms of expense ratios, assets under management, things like that.

STEVEN TRAVALI: Right. So how does the performance of a market-weighted ETF compare to an equally weighted ETF for an S&P 500? You know what, I'd say-- because the market caps tend to exaggerate returns at times, it can be more volatile with a market cap. Equal weighted is obviously going to dial that down. There's some pros and cons to both sides of that. What are your thoughts around that?

MICHAEL KEATING: No, I mean-- there are ETFs, again, or funds that do have market cap weighting, like the S&P 500. But then there's ETFs also that'll take the S&P 500, remeasure it to be equally weighted, so you're equally weighting those companies. And as everyone knows, with the S&P 500, you had the high allocation to the FAANG stocks, which I think a lot of people were concerned about. So those are available, equally weighted ETFs as well.

STEVEN TRAVALI: Right. What is the difference between market order and a limit order? Well, when I use one versus the other. So, a market order is essentially, again, guaranteeing you execution. In this-- whenever you buy a stock or an ETF, you can guarantee yourself execution or you can guarantee price. You can't have both.

So, if your focus is on price, you're going to use a limit order saying-- like, going back to IVV, which was at $378, I want to buy it at $350. That's my price. I'm dictating my price. I'm secondary on execution. I don't want to pay any more than $350. If I say, I don't care what it's trading at. I just want the exposure. I want it in my portfolio today. Well, then that's a market order. You're going to get it done immediately within a second.

So, I got a question. "What determines the expense ratio, 0.03 versus 0.47, et cetera, and why? What goes into that?" That might be a little bit of indexing towards active management and things like that too.

MICHAEL KEATING: It could be that. It could also be the type of market that we're accessing. Is it more international or specific country specific? It's always harder or more expensive to access those types of sectors or countries, so we're passing those costs along in some ways.

When it comes to the S&P 500, like IVV at 0.03, that's a very efficient, liquid market that is not easy to get into, but it's very liquid to get into. So, the cost can be much lower than something that's more, again, focused on a sector or specific country where, again, the expenses to trade in that market are higher.

STEVEN TRAVALI: Right. For example, I know earlier we looked at the megatrends, which is at 0.47. But at the same time, when we peeled back the hood, we saw international stocks. While domestically, we can trade ETFs, we can trade equities for no costs at Fidelity, that's not the case for internationals.

If I want to go buy a stock on the exchange overseas, I'm going to have to pay a currency exchange fee. I'm going to have to pay an exchange fee on that particular exchange. And they all vary. And that could obviously roll into that expense ratio as well. So, part of it's passing that on. "What's considered a high or low for a tracking error?" In your-- I know you alluded to that earlier, like big.

MICHAEL KEATING: No, no. It truly depends on, again, getting-- what sector it is, what-- international tend to be a little more spread in terms of wider in terms of tracking error, again, because of the underlying stocks that we're accessing within the portfolio tend to be, again, higher cost. So, the tracking error is going to be a little higher. So, again, it depends on the market. Going back to IVV, it's very small because it's such a liquid market.

STEVEN TRAVALI: And frequency of re-balancing, I would imagine, plays a point in that too.

MICHAEL KEATING: Correct.

STEVEN TRAVALI: Especially with market capitalization, things like that. You get a stock that gets a little bit out of whack. It starts to take a run. It's going to-- unless you're re-balancing more quickly, it's going to add to that tracking error.

MICHAEL KEATING: But I do also say that that's where ETF managers compare themselves to other ETF managers. It's truly-- so if you have five ETFs that are focused on, say, China, and they're basically doing the same thing, same markets, that's a good comparison, like how well does that ETF manager actually track that benchmark. So, it's a good measurement to make a decision.

STEVEN TRAVALI: "Is there a minimum amount you need to invest in these iShares ETFs like HDV or USIG?" I think, while we haven't touched on that, the answer is no, especially with fractional share trading now. You can even buy a fraction of IVV. You don't even need $378 to buy that. If you want to put $100 in it, you can do that today. Just a few years ago, that wasn't the case, but that threshold seems to get lower and lower. So that's a great question, something that I think is very important that we didn't even think to touch on.

MICHAEL KEATING: Yeah, no, and I also think--

STEVEN TRAVALI: The cost of entry is basically as much as you want to put in.

MICHAEL KEATING: And I think the Fidelity-- the platform, Fidelity platform, to own ETFs, to do your ETF research, is one of the top in the industry. Again, I think they were one of the first ones to offer that no minimum in terms of ETF buying. So, the other thing is, all of these are commission free*****, so-- where that wasn't the case 10 years ago. A lot of ETFs were not commission free. Now, across the board, they're-- obviously, individual stocks and ETFs are commission free online.

STEVEN TRAVALI: So, this question is, "Is there a place where I can track the volatility of an ETF to see how it performed versus the market?" So yes and no. I'll use IVV as an example here. And the best place to see that is most likely in a chart. So, I can go to my Chart Plus, which is going to give me a little bit more advanced features. And I can hit Compare, and I can put .SPX for the S&P 500.

Now, for those of you that didn't see that, because the tracking is so minimal, in terms of the tracking error, there is an S&P 500 blue streak behind those red and greens. You just can't see it very well because the tracking error is so minimal. But that's essentially how you would do that. If I take it out, you'll see it disappear. And then I'll put it back in just for those playing the home game so you can see that again. But essentially, that's how-- that would be a great representation of what you're looking for in terms of minimizing tracking error and seeing.

Now, the caveat to this is IVV and .SPX is a very clean example. It's like a magician. I already knew the outcome of this example before I showed it to you because I've done it many times. However, if I go to a megatrend, I'm not going to have as clean of an example as this, so just to put that into perspective as well. Because that index is a theme. It's not-- and maybe you want to speak to that a little bit more.

MICHAEL KEATING: Yeah. And I would say the underlying companies that we're investing in aren't as large as the S&P 500 companies. So, in terms of liquidity, it's not going to look like that exactly. So smaller companies, newer companies, not as-- things like that.

STEVEN TRAVALI: Yeah, it's very rare that you get a good, clean example like that, in all fairness. Let's see here. "Does AGG pay dividends? If so, what is the main difference between AGG versus USIG?" So, this is going to be our last question. And I'm going to pull up a comparison real quick. Mike, if you want to talk to--

MICHAEL KEATING: So AGG, yes, it pays monthly income off the underlying bonds, yes.

***** *On-screen disclosure [NOTE: Free commission offer applies to online purchases of Fidelity ETFs and iShares ETFs in a Fidelity retail account. The sale of ETFs is subject to an activity assessment fee (from $0.01 to $0.03 per $1,000 of principal).]*

STEVEN TRAVALI: And versus USIG, so we're going to go to Comparisons. And we'll go to USIG. And then I can see my Basic Facts and Performance. If I'm looking at Fixed Income Fundamentals since we're talking about dividends, I can see what my weighted average duration is, annual turnover, price performance, and issue-- and some tax distributions, market price, et cetera.

MICHAEL KEATING: Yup, so you're just going to have slightly different holdings. There is some overlap. But they do pay income on a monthly basis.

STEVEN TRAVALI: Right. All right. I think we're out of time. This has been a lot of fun. It's great.

MICHAEL KEATING: Fun, yeah.

STEVEN TRAVALI: Thank you very much, everyone. And please fill out your surveys that are at your tables. For you playing the home game, it's on the right side of your screen. Take a few minutes. Let us know what we did good, bad, et cetera. We'd love to hear the feedback and thank you again for your attendance, both in person and online.

MICHAEL KEATING: Thank you.

END OF AUDIO FILE

Footnotes:

[1] BlackRock ETP Global Landscape Report 1/31/13. Based on number of ETFs, AUM and market share.

[2] Expense ratio is the total annual fund operating expense ratio from the fund's most recent prospectus.

See the top 10 holdings for:

- Technology Select Sector SPDR Fund (XLK)
- iShares Trust DJ US Technology (IYW)
- iShares S&P Global Technology Sector Index Fund (IXN)
- iShares Russell Top 200 Growth Index Fund (IWY)

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