TRANSCRIPT

Choosing the right ETF: Getting started with iShares®

John Erdos: Thank you to everyone for joining us on today's webinar. As Jonathan mentioned, we're going to focus today on some of the thinking and analysis that goes into choosing the right ETF. My name is John Erdos, and I work for Blackrock. Blackrock is one of the world's largest asset managers[1]. We conceive and build iShares ETFs for investors, and iShares is the largest ETF family in the world. Just to put that into context, the global ETF market is approximately $5.5 trillion. In the U.S., that figure is just short of 4 trillion, currently around $3.9 trillion. So of that 3.9 trillion in the U.S., iShares makes up about 1.5 trillion, or nearly 40% of the market. The next two largest providers make up an additional 40% or so. So the top three add up to 80% of the total domestic ETF market, and the remaining 20% consist of dozens and dozens of other ETF companies.

As a leader in the ETF industry, both in the U.S. and globally, our intention is to be committed to offering investors like yourself broad and diverse portfolio solutions. But beyond that, we also want to offer education. I spend most of

[1] Source: BlackRock ETP Global Landscape Report 9/30/18. Based on number of ETFs, AUM, and market share.

my days talking with Fidelity financial consultants and branches, and call centers, as well as their clients, people like you, to share Blackrock's best thinking. We discussed the ongoing evolution of the ETF marketplace, and we try to find ways to partner, to give the best client experience to Fidelity investors.

Today, we're going to do a deep dive into the ETF evaluation process. We'll share a little bit of background about ETFs or exchange traded funds, and I do think that this will be a helpful session for investors for just learning about ETFs, as well as those who are experienced with ETF investing and trading. We'll do some level setting to be clear about ETF basics, such as what is an ETF, and why do investors typically use them. Then we'll introduce some of the due diligence frameworks and questions that investors should probably consider when choosing the right ETF. And let's be clear, not all ETFs are created equal. It's really important to have a framework in place, not — just because two ETFs may have a similar name, there could be some differences, and they could be meaningful. And lastly, we'll include some conceptual examples of iShares ETFs, and how we see investors using them in their own portfolios to achieve different exposures, and accomplish different outcomes.

So let's start with the basics. Before we get into how to choose the right ETFs, let's talk about what they are. Simply, ETFs are managed funds, much like a traditional mutual fund. Like a fund, they're diversified baskets of stocks or bonds, professionally managed by portfolio managers, and their aim is usually to track an index. Most ETFs today are index funds or index strategies. And as the industry continues to innovate, you're going to see more active strategies and smart beta strategies come to the market. So ETFs, while having characteristics like a fund, they also have characteristics like a stock, in that these funds can be bought and sold during the day whenever the market is open. You know, like a stock, some ETFs have options available. And like stocks, investors can use different types of purchases. Some you may be familiar with like limit orders, or stop loss limit orders. When all of these facets are combined, ETFs offer diversified, easy to use, low cost, and tax efficient way to invest.

Over the past decade, I'd say the ETF industry has experienced tremendous growth for a lot of really good reasons. You know, many people tuning in today probably own an ETF, so let's discuss why investors are gravitating toward ETFs and using them to invest in their portfolios. Like any other investment you make, you're looking to earn a return on your money invested, and you probably have to take some risk to do it. So there are going to be some costs along the way. I do think it's helpful to consider the list of categories on the screen, and the lens of pull performance. All these components contribute to your overall cost and your investment experience. So the first one to consider, return. Now keep in mind, most ETFs are tracking an index, and to be clear about what that means, an index are a basket of securities that represents the performance of a given index's stocks, or some other investment type.

Now because investors can't invest directly into a benchmark or an index, index funds allow investors to achieve these exposures. Some common indexes you may be familiar with are things like the S&P 500, which delivers equity exposure to some of the largest companies in the United States. Or the Barclays aggregate, which tracks the entire investment grade bond market in the U.S.

Other indexes can track things like sectors, or countries, or specific pieces or categories of the bond market, whether they be treasuries, investment grade bonds, municipals, high-yield, or any other number of sub-segments of these categories. The main differentiation here is index investment verse active investment. I'd say the majority of ETFs are not making active portfolio decisions with a goal toward beating the performance of a benchmark.

They're simply focused on delivering, as near as possible, the return of the benchmark itself.

And really, many investors are surprised to learn just how competitive the performance of ETFs are compared to that of other fund structures. At Blackrock, and true of our partners at Fidelity, we believe at our core the power of both index and active managements. With ETFs, the performance of our core market cap ETFs over the past five years has beaten 80% of peers in the active management space. You can see the mention of style boxes on the slide, and that covers exposures ranging from large cap, to mid-cap, to small cap, to value, to growth, and everywhere in between.

An important note is we do believe there's no such thing as passive management. Sometimes the folks on TV or financial press will call index investments passive investments. Make no mistake, investors actively choose exposures in their portfolios. With the granularity of the different ETFs in the market, and their transparencies, investors can easily express a viewpoint on the market, investors can be active in their portfolio decisions by using ETFs, and with over 2,000 ETFs listed here in the U.S. alone, the ability to finetune a portfolio has never been more achievable.

Let's talk about cost. From a cost perspective, ETFs are fairly low price. At iShares, we have our core series, which are our low cost ETF solutions, and inside the core, one can invest in S&P, large cap, mid cap, small cap equity funds. Through the MSCI indexes, developed international equities, or emerging market stocks. For example, investors like yourself can purchase the S&P Total Market ETF, which is ITOT, which costs only three basis points, or three one hundredths of a percent. Thinking of it another way, only $3 in annual management fees for every $10,000 investors. This is truly an economy of scale.

In the ETF world, costs have come down over time, which we're happy, it means more money in the pockets of investors. The average fee for an active open end mutual fund is 0.96%, nearly 1%, and with investors becoming far more cost conscious and really digging into what they're getting in return for certain expenses, I would argue the low cost nature of ETFs has been a tremendous driver of flows.

Moving on just to tax efficiency, it's an important category, and it's not just low expenses that should be considered. Because ETFs are generally index strategies, and generally have low turnover, when you combine this with the structure of ETFs, it means that ETFs are relatively tax efficient. And when I say tax efficient, I mean that they're generally distributed, maximizing qualified income where available, and they're generally good at maximizing capital gains distributions when possible. And that's really how we think about tax efficiency. Maximizing qualified income, minimizing capital gains.

And when considering the tax efficiency of iShares ETFs versus a universe of open end mutual funds, the comparison really is stark. Over the previous five years or so, iShares paid cap gains on just 6% of funds versus an average of over 50% in the mutual fund universe. I'm sure many of you have experienced that. The driver for the differences really relates mainly to structure, and we'll dig a little bit deeper into that further in the presentation, but when you think about trading ETFs, I really encourage you to think about Fidelity's robust commission-free list, and now offering over 500 ETFs commission-free. So investors can now trade hundreds and hundreds of ETFs commission free. And the ETF industry is driving down the cost of investing across all the different dynamics where there used to be cost in the past.

You know, there are some other benefits to ETFs that some investors appreciate, whether it be diversification, tradability, flexibility, or transparency. With ETFs, you can see what's held inside each fund, you can go to a website, like iShares.com and look up the holding of every single one of your ETFs on a daily basis. This transparency gives investors the comfort of knowing exactly what they own on any given day.

So to summarize, beyond the benefits like tradability, transparency, and some of the key reasons why investors are choosing ETFs, we point to competitive, compelling performance. We point to low costs compared to traditional mutual funds, and ultimately tax efficiency leading to fewer capital gains.

Now we've had a chance to discuss the what of ETFs, and why investors choose ETFs. We approach the really challenging question, which is how do I choose the right ETF? Twenty years or so ago, there were only a handful of ETFs, an investor could pretty much tell by name if a product was generally what they were looking for. Today globally, there are over 100 ETF providers, and as I mentioned earlier, in the U.S. there are over 2,000 ETFs available to choose from on our exchanges alone, and look, I acknowledge it can be really confusing to narrow down these options into a well-diversified portfolio, say 5 to 10 holdings. It is important to do your homework, because not all ETFs are created equal. If we can be honest, there's no reason or ultimately, no benefit to owning 2,000 ETFs, or even 500 ETFs, despite the fact that you can trade them all commission-free. It's not about collecting tickers along the way. It's about building a thoughtful portfolio. So having a framework to separate the wheat from the chaff is critical.

What you see on this slide are four key categories that we think are helpful to evaluate when making a decision about what ETF belongs inside your own portfolio. We'll discuss the benefit to knowing an ETF provider, or who is behind the ETFs that you're buying and selling. What's their track record? How good are they about tracking indexes? And what resources do they have to support some of the things that you may not see? And these are things like capital markets teams, these are things like relationships with authorized participants. And we see some of these key categories are what help drive the liquidity on the other side of your trade. Scale is even a more important thing now than ever, because as investors demand lower fees, scale will be a driving factor for liquidity. A question like, does this provider have enough scale to deliver value to clients is a pretty fair question to ask.

We'll do a deep dive on exposure. This is incredibly, incredibly important. Because at the end of the day, what you own determines what you'll see in terms of return. Simply what is inside an ETF? If you think about the Fidelity ETF screener tool, which Mike will demonstrate in a little bit, you can screen by large cap ETF, for example, but the question to ask is how is this defined?

There's no broad sweeping definition of what large cap means, what international means, what emerging means. How do I know if a large cap fund holds mid cap exposure? How many stocks are actually held inside the fund? How is it weighted? Is it weighted by market cap? Is it equal weighting? Is it some other method like earnings or revenue? So we want to take the time to look at the strategy, because again, because it sounds the same doesn't mean it is the same. And exposure's probably where you're going to find the biggest differences between what looks like two similar ETFs. We'll touch on structure, because even something so simple as how an ETF is built can affect your total return. And lastly, we'll revisit cost, because there can be a lot more to cost to consider beyond simple headline expense ratios. Most ETFs are structured relatively similarly, but there are some categories like commodity ETFs where you might get a K-1 tax form, while others won't. But we'll touch on a few of these differences.

And lastly, when we think about ETF due diligence, we will consider this cost is not about looking at the expense ratio, it's the entire cost equation. So let's jump into it. From a manager perspective, a couple things to consider, and some of this is at a very high level. When we mention how experienced is the firm in developing, managing, and supporting ETFs. Now ETFs have been available to investors like yourself for over 20 years now. But with the recent success and growth of the industry into the trillions of dollars, we've seen a lot of new entrants. And new entrants and innovations is a fantastic thing in the ETF industry. But oftentimes, a new entrant to the market with a new exciting ticker doesn't have things like a capital markets team. It may not have strong liquidity. They may not have strong relationships with authorized participants or market makers to make trading smooth. So it's a key consideration. If you look at assets under management, it's a great category, it's a great consideration variable that will separate and diversify between providers.

As I mentioned, what are the firm's total assets under management, and total ETF assets? As a lot of flows have left active mutual funds and a lot of asset managers, you're seeing some try to launch an entrée into the ETF business. Now, we encourage this, and we think it provides more choice for investors. But sometimes you want to make sure you have an expert providing the fund and building the structure for your trading.

Lastly, how does the firm manage a risk with market participants and index providers? What we see is liquidity is a lot like oxygen. You never really think about it until you really need it. So when markets start to get choppy, when market makers start to have a hard time keeping spreads tight, this is when you want a firm that manages risk and has strong relationships with participants and index providers.

I'll jump forward, in terms of exposure. And we're going to spend several minutes on this topic, we're going to show you a few examples of why exposure should be top of mind when choosing which ETF to buy. So let's look at a real life example of exposure. Again, the importance here is to consider what is actually held inside your fund. How does a particular index differ from another, based on how they screen, or what the rules are. Again, this is typically where we see the biggest difference between ETFs.

On this slide, you can see this is a visual example of three different U.S. equity index providers, whether it's Russell, S&P, or MSCI, all are widely respected and widely followed index providers in the U.S. and internationally. Each provider or manufacturer has their own unique definition of how they cut up markets in the finer pieces. So let's dig into it.

This is an example for building your U.S. equity allocations across large, mid, and small cap companies. So for example, on the left, the Russell 1,000 index is a very popular large cap index, and as you can see, it also includes some exposure to mid-cap companies. The large cap Russell 1,000 includes the

Russell 200, as well as Russell mid cap indexes. And by contrast, in the middle, the S&P 500, another widely held large cap index, does not include any mid cap companies. So comparing the two side by side will show more stocks in the Russell 1,000 allocated to medium size companies.

Also, if you look at the comparison between Russell and the S&P, it's helpful to look at the mid cap portfolios inside the index, and it's worth noting where the mid-caps start. For Russell, mid cap starts with the 201 securities and goes all the way through the 1,000. For the S&P, mid cap starts at the 501 all the way through 900. So you'll have a larger mid cap exposure simply by investing with Russell. This isn't to say that one way is right or wrong. Instead, it's about knowing that the rules of inclusion are, and how those pieces fit together.

Another example, on the right side, you can see the MSCI's methodology is similar to that of the S&P, except they have a separate category called prime cap that lumps in mid cap with large cap, similar to the Russell 1000. So let's pause here and acknowledge that this can be a bit technical. Do I expect, or think that you should do a deep dive in the weeds to do due diligence comparing index methodologies every single time you come across an ETF? The answer is, of course not. To sound like a broken record, ETFs are generally rules-based and transparent, so we should know, or at least have the ability to know this information in advance.

The next three slides I'm going to go through are going to give you real life examples of how major indexes tracking the same asset classes or regions can still deliver dramatically different outcomes for investors. So let's look at an example of how a U.S. equity portfolio can look when mixing index providers verse sticking with the same provider family.

When building an ETF allocation, it's often helpful to think about each fund or ETF like a building block, like a Lego. As you're constructing the portfolio, what you want are modular pieces that fit cleanly together. What we're trying to avoid is overlap. Unless you're specifically trying to overlap in order to cause an overweight in a certain asset class or exposure. Too often, investors build portfolios using ETF title alone, without considering the index. And this can lead to undesired overweight or underweights, that as we've discussed, can lead to performance differences. On the left is an allocation using IVV, which is iShares' S&P 500 fund, and IJH, the iShares S&P midcap fund. As we saw on the previous page, the S&P large cap does not include any mid cap exposure, and these allocations can be adjusted based on an investor's outlook. So the overlapping circles you see just to the right of the iShares allocation highlight what can happen when an allocation starts combining different index families. To complicate matters, some ETF providers will even mix indexes inside their own U.S. equity offerings. What I mean is a fund can be labeled large cap, it can track the S&P 500, while a fund can be labeled mid cap or small cap and track an entirely different index, like the CRSP index.

I show in the diagram, this can really lead to cause havoc. It can lead to unintentional and undesired outcomes. In this example, the CRSP mid cap index actually has significant large cap exposure, holding, get this, over half of the large cap S&P 500. This mid cap fund owns over half of the large cap fund. By combining the S&P 500 with this CRSP mid cap, investor ends up significantly overweighting their large cap exposure. What we want are modular building blocks. What we want are Legos that fit together. Not blocks that overlap, leading to wonky allocations. And really, to put a fine point on how different index exposures can be, when comparing the S&P midcap index to the CRSP mid cap index, there's only an 8% overlap, two mid cap indexes with only an 8% overlap, it means 92% of holdings are different between two mid cap ETFs.

On the right side of this page, you see the S&P equity style box showing how an investor can use building blocks, ETFs, the clean and clear exposures to achieve precise desired allocations. So don't think that this is too complicated.

This message is also the same when we start to consider international investing. I know some of you may have what's known as a home country bias, which is ultimately the tendency to overweight the home country allocation while ignoring some international investment opportunities. I know I do. Based on GDP, the U.S. makes up only about one quarter of the world's economy, so some investors seek to derive returns by investing outside of the U.S. We can see this on the fly. Here are two different developed international indexes that look very similar. Both MSCI and FTSE appear to have very similar approaches to market cap weightings in their indexes. With only about a 5 or 6% difference between mid and small cap holdings, you can see large cap is held in both at 70%.

However, let's look at the emerging market indexes from FTSE and MSCI to see how things can be dramatically different. Let's do a little bit of discussion. What is an emerging market? You know, there are many considerations that go into these definitions. Sometimes it's the size of an economy. Sometimes it's the openness of their investment markets, meaning that they're transitioning from a closed economy to a market economy. Sometimes it's the progress of their economic and development reforms. Sometimes it's a recent increase in both local and foreign investments. But based on all these considerations, China, which is one of the world's economic powerhouses, can still be lumped in the same emerging market category along Tunisia with its much smaller economy and fewer resources.

So back to our example, MSCI classifies South Korea as an emerging market country, while FTSE does not. This leads to a 13% difference in country holdings between two emerging market indexes. So if we consider that South Korea is a major technology manufacturer, this leads to a notable difference in sector exposures between providers, which again, can lead to performance differences. An investor who purchases a FTSE developed market ETF and an MSCI emerging market ETF just doubled their exposure to South Korea. And so I want to reiterate, it's best to stick with the same index family when building out an allocation. On the slide, you can also see that some indexes deliver a higher tracking error than others. This is definitely something an investor is trying to avoid. Now I do realize this is some technical information, this is an in depth look at the importance of exposure, but I can't emphasize enough that some of the biggest mistakes investors make relate to not understanding what they actually hold.

Moving forward, structure can also affect performance, and you see on the slide, is the ETF an independent entity? Meaning does it stand alone as a share class? Or is it a separate share class of a traditional mutual fund? The reason why that is important is when we return to tax efficiency. If a capital gain occurs inside a mutual fund, and the ETF is a sub share class of the mutual fund, the ETF will also occur — or sorry, the tax capital gains will also occur inside the ETF. And when the goal, one of the benefits of ETFs is tax efficiency? Attaching the vehicle to a less tax efficient vehicle is probably not the best operation. We look at how the creation redemption mechanism process impacts tracking your spreads, ultimately what I want to cover on that is we want the tracking error to be as low as possible. The more tracking error means the less performance that you're going to receive as expected.

Third, does the ETF structure allow for dividend reinvestments as they're paid? So the world's largest ETF launched in I believe 1993, SPY was launched as a UIT -- a unit investment trust. At the time, this was the best type of vehicle, and it made a lot of sense, but efficiencies have been developed as the markets evolved, and no longer do ETFs launch as UITs. The reason being, a UIT manager can't reinvest cash from dividends paid by the underlying securities, and they can't invest it into more shares inside the company. So the cash goes into a noninterest bearing account where it will sit until paid out to shareholders on the quarterly basis. By not being able to reinvest, this caused tracking error, this causes cash drag. And so you can see, as the ETF market has evolved, so have structures.

Then lastly, what are the tax implications of the ETF structure? Have there been instances when cap gains were paid due to a structure? Look, for an ETF holder, you only want to be responsible for your own action. You don't want to receive a capital gain that was triggered by a large institutional shareholder who bought or sold securities. And so structure really does drive some of this total cost of ownership and performance.

And then the last consideration from our due diligence framework is cost. What's the average expense ratio? Trading cost, average spread. What I mentioned is this industry is truly, as assets under management grow, expense ratios are reducing. This is an economy of scale, as assets under management become larger, costs are able to go lower, which is a true benefit to shareholders. Where the internal transaction costs, or rebalancing costs, something that we need to pay attention to, and how much in cap gain distributions has the fund paid in the past? And I'd encourage you to look at the right side of this slide. Think about cost in two categories. One are explicit costs, and the other implicit costs. Explicit costs are the headlines, those that you see. Expense ratio, brokerage commission. And implicit costs are like trading costs, performance versus a benchmark, tracking error, or tax. So the easiest way to think about it is like a Tesla, for example. I'm based out here in San Francisco, and I see a lot on the road, and while a Tesla may cost, I'm spit balling here, maybe $40,000, and let's say a Toyota Corolla might cost $30,000. Those are the explicit costs, we need to consider the implicit costs. What are the costs of maintenance? What are the costs of insurance? What are the costs of gasoline over time? Sometimes those implicit costs may make the decision to purchase a security more advantageous than simply those headline costs.

Another consideration I do want to bring up is Fidelity's price improvement -- with nearly 95% of shares price improved through trading at Fidelity, and with a combined commission-free list of over 500 ETFs, including over 330 iShares, focused on minimizing cap gains and low expense ratios, and institutional indexes, the partnership between iShares and Fidelity truly provides a solution and experience for investors.

So the big question, where do we go from here? And if you're anything like me, sometimes too much choice can be confusing, as there's a symptom known as analysis paralysis that can show itself when faced with choosing among several hundred options. Before Mike shows you how powerful the ETF screener on Fidelity.com is, I'd like to briefly share a few iShares building blocks and ideas that we see investors use to get started when constructing portfolios.

So building the core, the simplest way to get started is to start with the basics. By now, I think you're familiar conceptually with what we call the iShares core. And the core represents some of our largest, lowest cost, most tax efficient building blocks, used by retail and institutional investors alike to achieve broad diversification both in the U.S. and internationally. As we've discussed, an investor can build exposures piece by piece, allowing the opportunity for deliberate overweighting or underweighting of a certain market cap exposure.

IEFA and IEMG deliver international equity exposure based on the institutional benchmarking standard MSCI indexes. You know, ETFs have really allowed the democratization of investing by giving access to difficult to access markets that used to be only available to sophisticated institutional investors. And even better, they're able to do this with expense ratios that are approachable to even the most cost conscious investor.

On the bond side, I want to point to AGG, it provides access to the investment grade U.S. bond market. AGG, with over $60 billion under management, it's the world's largest bond ETF, providing exposure to not only U.S. Treasuries, but corporate bonds and municipal bonds of all durations. And they do that for just five basis points. And the iShares Core is named as such because it represents the common core of a retail investor's portfolio. With a strong anchoring and allocation to exposures like these, clients often feel more comfortable with their ability to achieve diversified market returns, and some investors even chose to add satellite approaches to certain asset classes, or sectors, or regions, where they hope to achieve greater price appreciation.

Second category here is seeking to reduce risk. As the ETF landscape has evolved, so too have the solutions available to investors. You may have heard the term smart beta over the past several years. And it's one of those big umbrellas where if you ask five people what smart beta means, you're liable to get, you know, six different definitions. Smart beta strategies typically capture factor exposures, and they use systematic, rules-based approaches like an index, like a standard index. But these strategies can be an efficient and low-cost way to complement or even replace active funds or broad index funds while seeking to enhance a portfolio's return and diversification, or even to reduce risk. Simply put, smart beta funds typically apply a tilt to a standard index in order to achieve a specific portfolio characteristic.

USMV, ESAV, EEMV, they seek to provide exposures similar to that of their core counterparts, while attempting to smooth the ride for investors through market cycles. The goal ultimately is to maximize the upside capture while minimizing downside capture. So investors who feel like choppy markets are ahead, they often gravitate towards smart beta strategies like minimum volatility. Through different market cycles, some investors also seek exposure to factors like momentum, quality, value, or even dividend.

Speaking of dividends, this leads to our third category, dividend focused ETFs. So no matter if you're looking to grow your wealth or even save for retirement, generating income in your portfolio can help you get closer to reaching your individual goals. And let's be honest, with that hunt for income even more challenging now than ever, investors need to consider a broad range of opportunities to seek yield.

When we look at historical stock market returns, income generated through dividends has actually contributed a substantial portion of that return. Two of the funds highlighted here, HDV and DGRO, D-G-R-O, provide exposure to equities with high levels of income. Now they do this in different ways. HDV provides exposure to an index of established high quality dividend paying companies that have been screened for financial health, while DGRO provides low cost exposure to U.S. stocks focused on dividend growth and have a history of sustained dividends. So HDV looks at current dividends and the likelihood to continue going forward, while DGRO emphasizes historical dividends, and seeks consistent growth. So strategies like these, they can be used inside the core of a portfolio to seek income or as a peripheral exposure to boost the overall yield of a portfolio. Now there are many other funds that provide access to income strategies, both in the U.S. and internationally, and I really do urge you to do some exploring on your own to find the right fit for you.

Bringing it all back home. You know, we discussed a number of topics that investors are faced with when investing in ETFs. We touched on why investors are using ETFs now more than ever, reasons like competitive performance against active funds, low cost access to innumerable asset classes, sectors, geographic regions, and diverse strategies, and we also highlighted ETF structural tax efficiencies when compared to traditional mutual funds. Most importantly, we reviewed a due diligence process that points to the importance of manager evaluation, structure, cost, and above all, ETF and index exposure. And lastly, we talked about a handful of the nearly 330 iShares commission-free ETFs at Fidelity that investors can use to build diversified exposure.

It's been a pleasure sharing this information with you, and I'd like to reintroduce Mike Ruger, who's a regional brokerage consultant at Fidelity, who's going to guide you through some of the resources, research, and information you can find on the ETF screener on Fidelity.com as you either begin or continue to put this information into practice. Michael?

Mike Ruger: Great, thank you very much John. Very valuable insight there, and to everyone tuning in today, appreciate the time. So as John mentioned, my name is Mike Ruger, I work as the regional brokerage consultant for Fidelity, providing support to our financial consultants and clients here in the Pacific Northwest. My role is really to help, you know, each and every one of our clients leverage the tools, the resources, and the breadth of the offerings that Fidelity brings to the table to help you build out your portfolio and invest and trade with more confidence. The topic today, in my opinion, couldn't be more timely. Definitely a topic that, you know, investors, you know obviously everyone tuning in today among many others, are frequently asking about. And wanted to take the next 10 or 15 minutes and really highlight some of the resources that Fidelity offers to follow through on some of these ideas that John has presented. So I would urge everyone to really think of the context here, and the process for managing their portfolio.

And we're going to be starting right at the first step here, which is idea generation. So what I'm going to do is on Fidelity.com, we're all logged in here, and this screen will look familiar to everyone. This is the first screen you see when you first log into your account, and we're going to head up to news and research, and then down to ETFs. So one of my favorite tools that Fidelity offers is our ETF screening tool.

What I've done as a first step is just gone up to the news and research tab at the top, and then down to ETFs. And so this is going to launch our stock research center, with a number of tools for both identifying, filtering for, and researching specific ETF trading ideas. So if we scroll down the page a little bit, we'll find the ETF screener. I want to bring everyone's attention to first and foremost, some of the prebuilt screens that Fidelity has created. What I mean by this, we've identified certain criteria, some of the most commonly searched for criteria that investors are looking for, really to save you the time and effort of having to put in your own definitions there.

So I'm going to start here with the Fidelity and Blackrock relationship, searching for iShares ETFs. And from there, we're going to jump into the iShares Core. And as John had alluded to, the iShares Core lineup is really a list of funds that are designed to serve as building blocks for a portfolio. So as we'll see, we've got kind of these core building blocks for U.S. stock exposure, international stock exposure, as well as fixed income bond funds. Now as many of you out there know, it's a total return — or excuse me, a total market fund tends to be among those most popular ETFs.

So I'm going to jump into the iShares Core S&P Total U.S. Stock Market ETF. As we click on the symbol, this is going to launch the ETF research, and I want to go in here to really demonstrate one specific point that I'm glad you brought up John, which is really the construction of that fund. The way I see it, there's a lot of different ways to kind of, you know, slice and dice the market, or peel back the layers, however you want to think of it. Most investors are pretty familiar with things like market capitalization, style, is it a growth or a value fund, or a blend of both? So this screen is going to allow us, this research is going to allow us to, you know, get a little bit of a lens into what this total U.S. stock market fund holds.

So at the top, we'll see what is it holding? You can see the stock, the country allocation, the capitalization. I want to see more, and really highlight the fact that this is a broadly diversified fund. The reason I like this view from a market capitalization standpoint, again, is really to demonstrate that point you made earlier John, which is to say 80% of this fund, give or take, is large cap exposure. Because this uses the S&P, or Standard and Poor's total market as the benchmark, this is essentially your S&P 500 exposure within the total market fund.

The orange piece here, your mid cap exposure, fits into your S&P midcap 400. And the remaining piece is your S&P small cap 600. The reason this is important, one of the most common mistakes, I would say, that a lot of investors make, is that overlap. So it's owning something like a total market index fund, but also owning an S&P 500 index fund in the same portfolio. And while there's nothing inherently wrong with that, a better understanding of the composition of these funds will tell us, you know, you now have a significant large cap concentration in your portfolio by doing that.

Another topic that I wanted to highlight here, let's go back to the previous page, the research page. So again, this is just the basic research for the ITOT, iShares Total U.S. Stock Market Index. One of the shortcuts that Fidelity has built into this research page is a similar ETFs comparison tool. So I want to actually take this and compare it to some similar funds. And we see here we've got a Russell 3000 ETF, we've got index funds from other providers here. If we click on more in the top right, this is going to allow us to add some of those criteria that John mentioned, you know, really important criteria to look at when comparing ETFs. Notably, performance and tracking error, the cost, the tax efficiency. So by going into a more detailed comparison view, we have most of that information front and center. Your return information, expenses and tracking error.

All right, I'm going to add one more here, and to do so, and this is important to take note of. You can actually edit this view and add additional criteria. So on this comparison tool, if we head up to the top right, click on edit view, this will bring up a list of all of the criteria you can compare these funds based on. And I'm going to scroll most of the way down to the bottom here and add the tax cost ratio that John spoke about earlier. Again, this is a measure of tax efficiency. Simply put, the lower the better here.

So I've added that to this page, this comparison page, and we can now find, at the bottom, the tax cost ratio. Again, the measure of tax efficiency for all of these similar funds. So we now have a view here where we can look at similar funds, we can look at the tax efficiency, the expenses or cost, and also the performance and tracking error, all in one space. And again, the game here isn't to collect as many tickers as possible. As an investor, if you're looking for kind of that core U.S. total market exposure, you're really looking to choose one of these funds to serve that purpose based on the criteria outlined.

So I want to hit on one more aspect of the screening tool here. I'm going to go back to news and research, ETFs, and we're going to build a default, or excuse me, a custom screen here. So we spoke a little bit about how you can use some of the defaults to search for specific providers, you know, funds that hit on specific market caps or sectors. Let's assume for a moment that you have a core position in place, something like the total market index, and you want to complement that with, you know, let's say a small cap growth fund, OK? We're going to use the screening tool to identify all of the funds, kind of narrow the universe of 2,000 ETFs down to just a handful that match your criteria. So on the left side of the page, we've got what I call the library of criteria to choose from. Right? So we can choose anything from this list. And I'm actually going to start here by jumping into the objective of the fund. So let's say we're looking for a domestic stock fund. So we click on geography objective. In doing so, we can now choose what geography we want to search for. So we're going to say domestic stocks. All right? Now I like to kind of minimize these options as I go to save real estate, so I'm just going to click on that again to minimize, and let's add our second criteria.

So to get into something like, excuse me, a small cap fund, we're going to go down to our equity objective, capitalization, and isolate these small cap and micro funds. Now as I'm doing this, you'll notice we've already narrowed the universe down from 2,100 down to just 86 funds, just based on the two criteria we have here. Still a little large, still a little more homework than I would want to take on right now, so we're going to continue adding just a couple of criteria. Let's add our style objective, and so we're going to say growth here, so now we have a small cap growth U.S. stock fund, and just like that, we've got just 13 results. So this is a far more manageable lift here that allows us to begin going in and doing our due diligence on these funds. One additional shortcut, just as a time saver, is again, we can add some of those other criteria we want to evaluate these funds on, like expenses, so notice how I'm just using the search box here to find net expense ratio. So the very low, and then we can do the same thing with tax cost ratio. Again, that measure of tax efficiency.

So just like that, if we're trying to, again, complement a core total market fund, we want to add something like a small cap growth fund, just like that, we've narrowed this very complicated universe down to six results. OK? So from here, again we can go and do our due diligence, evaluate these funds, and run a further comparison on them. So hopefully, this gives everyone a better sense of, you know, number one, the tools that are available to find and compare some of these funds. But also again, I would urge you to kind of think of that process, as John alluded to, think about that process of building out your portfolio. Do you want one comprehensive solution, something like a total market index? Or do you want to build it out using modular components along with some complementary pieces?

I do just want to hit on one additional topic, which is additional education. So we're going to head up to news and research here. And I'd be remiss if I don't point out, for those of you with additional questions, you know, whether it be comparing things like ETFs and mutual funds, or you know, getting additional education on finding the right ETFs. I'm going to come into the Learning Center. So many of you are familiar with this resource, you probably even signed up for today's webinar here. This is where we consolidate all of our educational content. And as you'll see, there are different categories. So to follow up on today's webinar, we can go into ETFs and ETPs. And here, we have a series of articles, webinars, videos, that answer the majority of questions that you might have following today's session. So I'd urge you, you know, if this is a topic of interest, pursue further education, I would urge you to reach out to your local financial consultant, your local regional brokerage consultant, or simply give us a call, and we'd love to answer any questions you have.

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