TRANSCRIPT

Putting ETFs to work in your portfolio

Peter Stringfellow: All right, thanks Jonathan. I definitely appreciate the intro and the logistical overview there. Folks, as Jonathan mentioned, my name is Peter Stringfellow, I work as a regional brokerage consultant here for Fidelity. What that means is essentially, I meet with our self-managed clients, folks who want to run their own strategies within their portfolio, whether that be their entire portfolio, or a portion thereof. And I assist in educating and guiding how to ultimately create processes through use of our tools and our research to really meet the goals you're trying to meet, as it relates to the strategies you're trying to run. Today, we'll be talking about putting ETFs to work within your portfolio, and as I'm sure all of you are very well aware, ETFs have really grown quite a bit here over the last couple of decades. Originally coming out in 1993, they have been around for quite some time. Granted, there have been different structures of ETFs, or ETPS, that have come out. We'll talk a little bit about that today.

I also want to thank Jonathan for mentioning some of the resources you have available to you post these webinars. One, I do think it's a great best practice to watch the on demand version of the webinar again, and potentially multiple times. You also have to consider that when you attend a presentation like this, if you really want to take something away from the presentation, you have to put things to practice. You have to actually do some homework and move forward. Now, I am going to go through the slide portion relatively quickly. It does provide some great context and great information around the ETF market as a whole, and you know, I want to really help you as it relates to making more informed decisions when using ETFs, and how you might use them within the portfolio for differing strategies. But at the end of the day, attending a presentation like this over the course of an hour does not make you an expert, does not give you everything that you necessarily need to move forward. So do think to yourself, what can I do after this presentation that will really allow me to develop a strategy that supports, you know, my goals, and my timeframes, and my risk tolerance?

So using our Learning Center -- which I'm sure you're all very familiar with, as you went through the Learning Center to register and attend this presentation -- is a great resource. Jonathan had mentioned our Strategy Desk there, a great resource. We have my counterparts across the country, as I mentioned, regional brokerage consultants in each of our branches. And if you do have the desire to sit down with one of us, whether it be to discuss ETFs or any other pertinent strategy, as it relates to investment vehicles and processes for research, you're welcome to reach out to your local branch and ask for an appointment with your regional brokerage consultant, and we're happy to help and support you in that method as well.

So what I want to do here is just kind of review some of the more common questions that we hear from our clientele. And the vast majority of our clientele are fairly familiar with ETFs, in the sense that they either own an ETF or they understand some aspects of cost, or they understand how to find ETFs. Whether that be through the screening tools we provide, or through backing into an ETF by way of researching an individual stock where you want to have a more diversified exposure to a particular theme, or to a particular index that a stock is a part of. But the tools are really quite robust. Whether that's finding an opportunity, or implementing the opportunity within your portfolio. So, we're going to really go through a lot of the online tools today, I want to define some key term with you as it relates, especially to pricing on funds. And maybe some of the differences between ETFs and mutual funds. Looking at the growth of the ETF market is something interesting, just because the funds have grown so much as it relates to net assets. And then ultimately, how do you put it to practice? How do you use these ETFs within your portfolio? And ultimately, incorporating the exposures that you want by way of either a strategic, a tactical, or potentially even a speculative approach to getting exposure.

So when you think about an ETF in general, it is a basket of securities, a lot like an exchange traded product. Really, an exchange traded fund falls under the umbrella of exchange traded products. So when you look at the resources within our website, oftentimes you'll see ETP. All that means is that the product is traded on an exchange. An exchange traded fund is a particular type of exchange traded product. At the end of the day, they are baskets of securities that are designed to provide exposure to different segments of different markets. Not just the equity market, potentially the bond market, or the energy market, or the currency market. So you have a lot of methods that you can use, or I should say, a lot of methods for exposure you can use across markets, by way of using ETFs. And this has actually lowered the cost of getting exposure to different areas of markets that were less liquid in the past. So ETFs have really, to an extent, revolutionized our ability as retail clients, individual investors, to get the exposure that we want, to different aspects of markets, which in my opinion, is phenomenal, because it does provide that efficiency and effectiveness in getting that exposure that we want.

So, when you think about an ETF as it evolves from the concept of a mutual fund, you're still getting that basket of exposure. The majority of ETFs are going to be passively managed. There are some that are actively managed.

Others are what's referred to as smart beta, you'll also hear this referred to as factor-based exposure, where you have, to an extent, an active design, but a passive implementation as it relates to what, let's call it index, you're trying to track with a particular fund. Some of, you know, the benefits too come within the realm of trades throughout the day, meaning pricing intraday, where you actually have a bid and an offer as it relates to where buyers and sellers are for a particular ETF, but you also have a net asset value as it relates to the closing prices for holdings. Typically, you can trade options on ETFs. Although some ETFs have very light options liquidity. You can short ETFs, you can use ETFs on margin for leverage. And oftentimes, you'll run into more tax efficiencies with ETFs as well. In particular that comes in the form of, let's call it the lack of, or less potential for capital gains distribution. And that is by and large because of the structure of ETFs and how they're created, and actually put on an exchange, and how they are taken off of exchanges, depending upon supply and demand dynamics.

So again, that umbrella, as far as what is an ETP, well ETFs fall under that umbrella, you'll also have partnerships that fall under the umbrella, and grantor trusts, and exchange traded notes, which oftentimes gives you exposure to commodities, or potentially some type of fixed income exposure. So again, a lot of great information, and if you want to dive deeper into any particular area of an ETP, go into the Learning Center and pull in the innovative ETF structures lesson. It will give you a lot more context as it relates to education on exchange traded products. And now, we do have within Fidelity.com an ETF landing page. This is more of an overview page. When you go into our investment products, at the top right of Fidelity.com, and click on ETFs. There's also a lot of great framework here as it relates to strategy and structure of how you might use an ETF, but if you want to research ETFs, that's where you would actually go into the news and research tab to pull up the specifics for ETFs, or exchange traded funds.

Real quick, as far as growth, as I mentioned earlier, we've seen the net assets within exchange traded funds grow significantly to the extent of the CAGR at 22.7% over the last decade. So that's, you know, looking at now more than $3.8 trillion in assets under management within these exchange traded funds. And then as I mentioned before, a lot of these are passive, meaning there's no active management decisions going on behind the scenes as it relates to the basket of holdings, and what's actually owned within the basket. If you break it out by let's call it region, OK, that that 10 trillion that we expect to see by 2023, by and large, United States exposure, as well as Europe, Asia, Oceania, and Canada. When you think about why that might be, think about the transparency of markets, right? If you're giving passive exposure to an index, you want to be getting passive exposure to an index that is very transparent, where there's a lot of information about the underlying holdings that are a part of the index. So that's one of the large reasons why you see such a large percent of U.S. exposure coming from funds, is because you have such a transparent market here within the U.S.

So equities really do dominate the space as it relates to ETF exposure as far as net assets. But you do have a lot of international equities in the space as well. In particular, on the smart beta or the factor-based side of the equation, as opposed to just the pure passive index exposure. But fixed income is actually coming to be a lot more, and it is on the rise as it relates to that growth. And when you think about the fixed income market over the last, let's call it 30 years, right? Three decades. At the end of the day, we're in a bull market on bonds over the course of that time. So it's not overly surprising that the growth has lagged a bit in getting the exposure.

I'm not going to go too much into additional growth measures, but by and large, the market on the ETF space is dominated by what we refer to as the big three. So Blackrock, or iShares, Blackrock owns iShares. Vanguard, as well as State Street Global Advisors. Or the SPDRs, right? That was actually the original ETF came from State Street Global Advisors, which is SPY, or the ETF that tracks the S&P 500 index. Even though you have three different ETFs that track the S&P 500 index, but these three firms are responsible for about 80% of the assets under management, and you know, wouldn't you think about sponsors? They actually sponsor 19 of the top 20 ETFs that are large, as it relates to assets under management. Which, by and large, these are low cost passive exposure to these core asset classes, meaning indices that one might want to track, or use as a benchmark within a portfolio.

So, that gives us a good history lesson, right, as it relates to how ETFs came to be. When you think about using ETFs, well that kind of changes the, you know, the mindset. Knowing something by way of book smarts and definitions is one thing. Putting into practice in an appropriate manner for one's portfolio is an entirely, or I should say an entirely other concept, right? As it relates to understanding an educating one's self on how to use ETFs to actually manage strategies.

So I want to review a few common reasons why folks would use ETFs to go through the cost of ownership, especially because a lot of folks think cost of ownership is simply expense ratio. And in the mutual fund world, that's a lot of it. On the ETF side, there's a lot more that goes into cost of ownership. Think about a car, and if you buy a car, your cost of ownership is not just the sticker price that you pay for the car, it's also what you're going to be paying on insurance, and gas, and maintenance, and so on, and so forth. So if you correlate that to ETF, it's a little bit more appropriate, especially when you're going about doing comparisons to make decisions on which funds you might want to incorporate within your portfolio. I also want to provide you with a few tips on trading ETFs. But some of the more common reasons that one would use ETFs are you know, one, adjusting asset allocations, filling gaps within a portfolio, replacing single stock exposure, potentially harvesting tax losses will maintaining exposure to a particular space. Right? Investing using a core satellite approach. If you kind of that as, you know, strategic investing with tactical investing, you maintain exposures to markets that you want exposure to. That could also be more targeted in nature, which is that tactical element that comes into play. And then really understanding how you can get exposure to an investment factor or a philosophy, right?

So for example, a lot of folks want dividend type of exposure, or income type of exposures through equities. Well that could be an investment factor one might use to target that, you know, that theme within investing. So when you think about adjusting your asset allocation, that's where we're talking about broad asset allocation, right? So kind of top down, high level, looking at what kind of exposure you have to domestic equities, versus foreign equities, versus bonds, versus maybe some other type of market, say commodities or energy, and such, as well as looking at your cash exposure. So ETFs are a really quick and easy way to make one move that completely changes your entire asset allocation.

When we say bridging a gap, we're talking about, let's just say if you have an entire stock portfolio, or I should say your portfolio's made up of entirely stocks, you may have a gap as it relates to certain exposure within a sector or an industry. And if you want to bridge that gap quickly and easily, and in a diversified manner, you can find ETFs that would target a certain sector or industry in order to provide you with a bit more, let's call it appropriate level of exposure as it relates to what you're trying to accomplish within the portfolio. Replacing single stocks, well again, that's kind of similar in the sense that you might have a large percentage of exposure to one stock within a certain industry, because let's say you purchased the stock decades ago, or you inherited the stock, and now it's become an abnormally large percentage of a portfolio, meaning a large percentage of risk comes from one individual equity, that idiosyncratic risk factor that comes into play with some individual stock holdings. Well one might sell the individual stock, but in their desire to maintain exposure to the space, they might use an ETF to get exposure to that particular stock. And I'll show you some examples as we get into the live demo on how you can identify ETFs that would have a large percentage of exposure to a particular stock, or multiple stocks that you might be interested in.

When we talk about harvesting tax losses, this kind of, you know, plays into that idea of replacing individual equities about ETFs. So what I mean by that is if you're sitting on individual equities where you have losses and you want to harvest some of those losses in order to offset gains elsewhere within your portfolio, you can use ETFs to replace that particular, or those particular equities that have losses while again, maintaining exposure to the industry, or the theme that that company is, or I should say makes up as a part of, again, an industry or potentially more of a theme within a particular market.

Diving into that core satellite approach, as I mentioned earlier, oftentimes in the, this is my personal take on just investment strategies as a whole, I like to look at my assets, and before really even making decisions on what individual positions I'm going to own, I want to have a good gauge within my mind as it relates to what percentage of my assets are more core-based, meaning time in the market, getting exposure to different areas of markets by way of what's called passive indexing. Or satellite approaches, where I'm a little bit more tactical in how I manage the exposure over time. Meaning I'm doing research, and I have a process that helps me understand top down where opportunities may be, while also incorporating some bottom up assessments into my research in order to determine maybe which sector or which space within markets I think are more opportune, based upon the research that I'm doing. So ETFs make it very efficient and low cost to get that core exposure, as well as satellite exposure that you might be shifting around, and that is also kind of that targeted exposure that is tactical in nature.

I kind of think of tactical and satellite somewhat similarly. Simply because the thought in my mind is, if I'm getting tactical exposure, I'm being a little bit more reactive, but I'm not necessarily going short-term on my reactiveness, right? I might tie that into some economic analysis where I'm assessing where we are within the economic cycle, while also looking at other dynamics that might be geopolitical in nature, or even, you know, fundamental in nature, bottom up, in trying to assess where I think opportunities are within markets. And then again, I can use screening tools to find individual ETFs. Or I can use the backing in by way of knowing which stocks I want exposure to, to identify ETFs that would give me that targeted exposure that I want. And then again, the investment factor theme. Well, let's just say, you know, as part of my tactical investment philosophy, maybe I'm trying to be tactical in that I want income producing investments with a portion of my assets. So what I would do there is think through what percentage I want in exposure to a factor. So oftentimes, especially within the environment that we're in on the rate side of the equation, folks will look for income through dividend paying stocks. I could identify ETFs that give me exposure to dividend paying investments across an array of really regional exposure, or sector-based exposure, that would give me that targeted investment factor diversification within the portfolio that I would want to access.

So, you do have other reasons to use ETFs as well. You know, some people like to use ETFs for more of a trading strategy, but these are some of the more common reasons folks will use ETFs. Now when you're assessing ETFs, because you do have so many ETFs that are quite similar in what they're trying to accomplish, whether it be a passive strategy of just getting exposure to an index, or whether that be a targeted theme that you're trying to get exposure to, you've got to know how to compare those ETFs side by side to evaluate which one might make the most sense for you.

So everyone knows about the expense ratio. That's kind of like the sticker price of what you're paying, in essence, each year, to own the position. Right? But when you take into account your bid-ask spread, so essentially the spread between where buyers are, and where sellers are, because as I mentioned earlier, these exchange traded funds, they trade throughout the day, right? So you have a net asset value calculated out at the end of the day, you have an intraday intrinsic value, which is essentially the value of the underlying holdings as they're changing in price throughout the day. So then you have the price, and the price is determined based on supply and demand. And oftentimes folks think well, you know, would we see large premiums, or large discounts relative to where the net asset value is? And what's unique about exchange traded funds is that you typically will not see large differences as it relates to premiums or discounts. But you may see large spreads as it relates to bid and ask ratios. Right? So the larger the spread between the bid and the ask, the higher the potential cost that comes with that spread.

Now of course, you also have the commission or the trading fee that comes into play on ETFs. You have taxes as it relates to distributions, whether those distributions be distributions of dividends, or distributions of capital gains, by and large, you're going to see distributions of dividends, but that is something you would want to assess when comparing ETFs side by side. And then of course, tracking error. And the alpha that comes from that tracking error, in particular when you're considering how the ETF is performing versus the index that is being targeted for tracking.

So these are all very important factors that come into play when you're really trying to evaluate which ETFs you might want to own. So as far as actually trading ETFs, well there are a lot of commission-free ETFs out there, right? So you want to consider those commission-free ETFs. You also want to look at the spread, that bid-ask spread of the ETFs that you're considering buying, or selling, for that matter. You may want to use limit orders, especially if there's a widespread between where bids and offers are. Or if you're placing an order pre-markets to execute during market hours. You would probably want to use a limit order, because you might see some large spreads come into play as the market opens, and the underlying holdings of the fund are starting to open on their primary exchanges.

And then of course, doing your homework, making sure you understand what you're getting exposure to, because at the end of the day, not all ETFs are giving you the same types of exposure. You're going to want to do your homework as it relates to evaluating where exposures are within any particular ETF. And as I mentioned before, you can do that within our research tools, OK?

So I'm going to jump into a live demo here. So we can really kind of put the rubber to the road as it relates to what we've talked about, what we've learned up to this point about ETFs, and how we would put them to work within one's portfolio. Now, I always like to start with an analysis of where you currently stand. Because if you don't know where you are, it's hard to get to where you want to be. Right? So when you're logging into Fidelity.com, and I'm just going to use a test account for this assessment. What you would want to do is use our portfolio summary tool, we call it a guided portfolio summary, it's actually just the analysis tab when you go into your portfolio and look toward the top, below the black banner. You have an analysis tab. The analysis tab is like an X-ray to your portfolio. So as I mentioned, we call it a guided portfolio summary, we essentially try to walk you through how you would be able to assess your portfolio.

Now notice how in this case, this test account, it has $50,000 in it, and it's actually all in cash here, but it's kind of an odd position that it's in, so it's showing up as unknown. So what I can do here is if all of my accounts are kind of spread out across different firms, I can actually click on the dropdown arrow toward the top of the analysis tab, and I can add outside accounts in order to analyze my entire portfolio. Now if you do have accounts spread across different firms, well first off, for shame, they should all be here at Fidelity, right? But at the end of the day, we get it, like sometimes you just have to have assets spread around. Or you want to have assets spread around. So you can add outside accounts to this tool, either through our full view, which is kind of an aggregator tool, or just manually, by putting in the positions. What we've done within this test account, so we can give some realistic assessments of the tool, is we've added some accounts from other -- OK, so as we mentioned earlier, or discussed earlier, one of the common reasons to use ETFs is in assessing and changing exposures to asset classes.

So you'll notice in this case, the tool is giving us a breakdown of domestic stock exposure, foreign stock exposure, bond exposure, cash exposure short-term, as well as unknown or other. And oftentimes, the other might be somewhat of an obscure holding that may be more related to like, partnerships and things of that nature preferred, and securities of that nature.

But the power comes in this tool, not by looking at this summary view, it comes by way of clicking into the details. So when you go into the summary views section, if you want to see, for example, the breakdown of your asset allocation by way of individual holdings, you can click on asset allocation, gives us a breakdown of the portfolio total. And if we actually go into the donut graph here and click on, let's just say domestic stock, it will highlight for us within the table below where exactly our domestic stock exposure is coming from. So we that that Prime Cap Odyssey Aggressive Growth fund is giving us exposure to the domestic market of about $300,000. And $40,000 to the foreign markets.

Now, notice how at the top of this table, I can toggle from dollar to percent? Well I think it's a lot more helpful to look at it as percentage of the fund. What is the fund doing as it relates to breaking down exposure? Well 82% of the fund is domestic exposure, and 11% is foreign exposure. So, a lot of that foreign exposure that we're looking at is actually coming from this particular fund. Right? And if I wanted to dive in deeper in terms of where that foreign stock exposure is coming from, from a geographic distribution perspective, again, I can target that geographic distribution view, where I can see that 92% of the exposure is coming within North America, what 3% is in Japan, and if I actually click on the bubbles, it will again highlight for me where the exposure is coming from within different regions. So as a percentage of that fund, 4% is within Japanese markets, right?

Taking this to another level, in particular as we were discussing tactical investing, potentially satellite investing, we can assess our individual stock exposure, I should say our individual equity exposure as it relates to style box analysis. OK? Or sector-based analysis. So you can actually see that this portfolio has a really aggressive exposure to the mid cap space on the growth side. And if you're comparing versus the U.S. total market index, which is an index very similar to the Russell 3000, so pretty broad index of exposure that encompasses large cap, mid cap, and small cap companies, you can see that this particular portfolio right now has a lot of exposure to that mid cap space. Same concept, you can click on the box that is mid cap growth, and it will show us where that mid cap exposure is coming from, 32% of that time capped fund is targeted within the mid cap growth space.

Now personally, I'm not a, you know, overly aggressive in analyzing, as well as managing my portfolio by way of style box analysis, because you have really high correlations across style boxes overall, that's difficult to offset risk by way of changing your style box exposure. But if we dive into the sector tab, that's where we get a little bit better of a breakdown in terms of how we are exposed to different equity sectors of the market. And in this case, it's pulling in for us our domestic as well as our foreign stock exposure. So you can see that in terms of the approximately half a million within this hypothetical portfolio that is exposed to equities, well 33% of that is coming from the tech space, 28% of that is coming from the healthcare space, and 15 is within industrials. So you see how if you're comparing the exposures of the portfolio to the U.S. total market index, we have a significant overweight within tech, a significant overweight within healthcare, and an overweight within industrials. And we're giving up exposure to other areas of the market, right?

So if I'm doing research and diving into the news and research tab, and I want to do some top down research, I can launch within the markets and sectors page, and I'll just do this within a new tab, so I keep the analysis page open, I can look at research that is more top down in nature. So at first glance, this page is not super helpful, it's just showing us what's happening today in terms of performance across different markets, but on the left-hand side, if we go into the U.S. sectors and industries section, we can bring up sectors and industries overview, and we can see the 11 sectors of the market, and we can analyze their performance, we could assess weighting recommendations coming from three differing research firms, as it relates to where they would target overexposure, or underexposure, or just market exposure.

And what's nice about this is you can click on the links that are overweight, market weight, or underweight, and you can read commentary as to why each of these firms is giving the perspective that they are giving. You could also dive into the business cycle analysis, where you analyze where we are from an economic perspective, to help you make decisions as it relates to where you might want more or less exposure to markets. But if we're just looking at the snapshot here, and we're thinking well geez, you know what, within this hypothetical portfolio, we have a lot of exposure to tech, and healthcare, and industrials, when we look at the one-year change within those sectors of the market, we can see that compared to the S&P 500 index, tech has done quite well, up almost 5%, healthcare is underperforming, down 7%, and industrials is underperforming, down 5%. So the thought process would be well geez, over the last year, if I underperformed the market, I probably underperformed the market because of those exposures.

And moving forward, I need to consider whether or not I want to maintain those exposures if I think that the markets within those sectors are going to come back, or do well, for any given reason that is tied to my process, that is research, right? Because you notice here that there are three other sectors that significantly outperformed the broad market over the course of the last year. In consumer staples, real estate, and utilities. So a lot of outperformance on the real estate and utilities side. Now it doesn't mean you want to necessarily chase the performance, you want to do your assessments to help you make appropriate and prudent decisions as it relates to the targeted exposure you want, based upon your process, as well as based upon your timeframes and your risk tolerance, or based upon your theme. Right? So if your theme is, let's say income orientation, well you probably would have already had quite a bit of exposure to staples and real estate, and probably utilities as well.

So, this page is also helpful to create or to help you create a research process, and you'll actually notice here you have Fidelity insights as well. Jonathan earlier mentioned our quarterly sector updates, as well as our quarterly market updates. Those are phenomenal webinars to attend in assisting you with your research, that helps you make decisions. So again, like if I'm looking at this, and if I'm thinking well I want to ease up on some of my tech exposure, well I can click on tech, I see exactly where the exposure's coming from, and from there, I could decide whether or not I want to liquidate a particular position. Now if I own a lot of individual equities here within the tech side, or if I have a concentrated position in one particular equity, I may consider easing up on some of that position.

So what I can do is, and I'll just use arbitrarily, there's no recommendation here or anything to that extent, but if we launch within the search or get a quote tool here at the top right, let's just say the position that is Apple, OK? We can see the research dashboard for Apple, all right? And the research dashboard provides us with a lot of very targeted and specific information as it relates to an individual company. And I can do assessments that might be fundamental in nature, might be dividend-oriented in nature, might be technical in nature. But if I scroll down to the bottom of this research page for the individual equity, I actually see top ETFs by exposure to this company. So you'll notice here that if I wanted to liquidate a position that is maybe a concentrated position in Apple, well one, I've got to consider my tax consequences. But two, I can look at different ETFs that give me a lot of exposure to this particular stock. Again, this isn't a recommendation on Apple, this is just an example of how you can use any particular individual equity to identify an ETF that would give you exposure to that particular company.

Now there's another way you can do this as well. If we go back up to the top of the research page, or really within Fidelity.com, if we go into the news and research tab, and select ETFs, this will take us to the ETF research landing page. OK? Now if, when you go to news and research, and click on ETFs, if you do not see this view, you may be on our classic view. So you'll notice, if I click on back to classic here at the top, I have a different view that isn't quite as clean. OK? So we've been changing a lot of different pages within the website, for a variety of reasons. But by and large, to have consistency across devices. So dependent upon whether or not you're using a tablet, or a laptop, or a desktop, or anything in between, a phone, you can upgrade to the newer version of our research experience for ETFs simply by clicking here on test drive it today. That'll take you into the new view of the research dashboard, or the research center for ETFs.

So notice here how you have search by stocks. Well again, like if I type in some tech stocks here, and I want to find exposure to these tech stocks that might be held within any particular ETF, I can start to type the stocks in, up to five stocks, and click on view matching ETFs. And I can see exactly how much exposure I'm going to get to those companies within any particular fund. So it's a more targeted, diversified way of getting exposure to a certain area of the market. Whether that be sector-based or industry-based, or potentially, you know, domestically-based, or globally-based, or just internationally-based, it's totally up to me. But the tool is phenomenal in being able to identify those opportunities that are the opportunities you want to have as it relates to the exposure within your portfolio.

Now if we use this Tech Select Sector SPDR fund as an example here, we could also use the iShares U.S. Tech ETF as an example. I'll just click on the Select SPDR fund to start here. It's going to take us into the research page for this particular ETF, and if we upgrade, up at the top here, you'll notice it's going to do the same type of thing as our test drive it today with the ETF research center. It pulls up the exchange traded fund in the same framework that we were looking at the individual equity. So if you're not using this research page, I would highly encourage you to upgrade to the newest version, especially if you're not super familiar with the classic version of research, there's no sense in learning an old version of our research dashboard. But notice here how as I scroll down, well first off, you've got some basic quote data, right? For example, you see your bid size, right? Or I should say your bid price and your size, as well as your ask price and your size.

Well if we actually expand out the quote info here, you see the one-month average on your bid-ask spread, so that's a very tight bid-ask spread of a penny over the course of the last month. You notice that you have a very, very slight premium here in this case. So when you think about exchange traded funds and how they're created, they're not just created, I should say shares are not just created and put on exchanges that sit stagnant. Shares are created and shares are redeemed by way of authorized participants. Or essentially, oftentimes market makers partnering with the sponsors, so like in this case, the sponsor is State Street, if we were to scroll down here, you actually see similar ETFs, and you've got FTEC, which is Fidelity's version of the sector, kind of passive exposure, and you have Vanguard tech exposure, you have iShares tech exposure, you have iShares expanded tech exposure.

So what's nice about this is if you click on more, you'll dive deeper into a research page where you can compare ETFs side by side. So you'll notice right now, we're just comparing basic facts and performance. Well we talked about costs, right? And some of those costs we discussed were expense ratios. Some of the costs were tracking error, and efficiency, right? Or alpha. And some of the costs were also tied to bid-ask spreads, or ratios. So what's kind of cool about this tool is if you click on the dropdown arrow, not only do you have basic facts and performance, you have short-term performance and risk, long-term performance and risk, and personally, if I'm comparing very similar ETFs side by side, I would want to look at the performance and risk, as well as the cost of the funds, and I'm not just talking about expense ratio, I'm talking about that package, right, of total cost of ownership. So distributions on taxes might be an area that I assess, ETP details might be an area that I assess.

What I like about this particular tool isn't necessarily coming in and clicking on each section within the dropdown, it's actually editing the view and creating my own view for assessment of ETFs that are important to me. So I can basically remove everything within the right-hand column that is currently a part of the assessment, and I can bring in only the specific information that is important to me and my assessment for these ETFs. You'll actually notice as I scroll down, you have average monthly bid-ask ratio you can incorporate. If I wanted to include some risk measures in here, I could bring in, let's just say my one-year standard deviation as well as my three-year standard deviation. Maybe I also want to assess my Sharpe ratio for looking at risk-adjusted returns, maybe I want to bring in my yield, in terms of my annualized as well as my 30-day SEC yield. Just so I can start to do some assessments in comparing these ETFs side by side.

See, because at first glance, if I'm looking at just performance, for example, if we're looking at the one-year total return, now we see 5.87, 5.7, 5.3, 4.0, 2.77. But if we're comparing Sharpe ratio, which is that risk-adjusted return measure where the higher the Sharpe ratio, the better, the risk-adjusted return, because your performance divided by your standard deviation, granted it's a little bit more complex than that, gives us a breakdown of our risk-adjusted returns. So how much return are we getting for that volatility that we are assuming? But in this case, if we're looking at the Sharpe ratio on a month and one-year, well a 0.26 is significantly better than a 0.08. So if I'm thinking about, you know, which one of these positions do I want to own, I would be taking those types of things into consideration.

Now where we're looking at a tech ETF, you'll notice that your dividend yield is relatively low, that's not overly surprising, given that over the course of time, tech has been a little bit more growth-oriented than it has been value or income-oriented. So those again are very important factors to take into consideration as you're making decisions within your portfolio.

Now from here, again what we can do is kind of dive in deeper, we can make decisions on which fund we might want to own. So if we decide hey, let's look at the Fidelity fund as an example, well you've got some great research here in relation to what the analysts think, OK? If you have analyst ratings, you have the profile for the fund, and the reality is, when you're using ETFs or mutual funds for that matter, you should really be assessing and considering the exposure that you're getting. In particular, how many holdings am I getting within the basket? And you know, which sector or which industries am I getting exposure to?

If we use just a very broad basket ETF, which I'll just use in this case like an S&P 500 ETF, we can see that this position, again, not a recommendation, it's just a fund that tracks the S&P 500, sponsored by iShares, gives us exposure to 506 different individual equities with a breakdown of exposure that is 22% tech on down. So again, ETFs are a great tool to help you in managing your portfolio, especially when you have a well-articulated strategy or strategies that you're leveraging in order to, let's call it prudently, you know, manage your portfolio within the context of, or I should say, under the construct of your plan. And if you don't have a plan, I would highly encourage you meet with one of our financial planner to put together a plan to help you determine how you would want your exposure to be broken out within your portfolio.

So I know I've gone through a lot. As I mentioned, homework, right? It's important to do homework on these presentations, or I should say after these presentations, to really make them impactful for you, and effective for you.

END OF AUDIO FILE