TRANSCRIPT

Back to basics: Understanding ETFs

Presenters: Sean Murphy and Heather Knight

Sean Murphy: Thanks, Heather, and good afternoon, everyone. Thank you for joining us today. Again, my name is Sean Murphy. I'm an iShares product consultant at BlackRock.

Now before we begin, let me just say that on behalf of BlackRock and Fidelity, I hope all watching, as well as your family and friends are healthy, doing well, as things are slowly but surely getting back to normal. Today we'll take a deep dive into what ETFs are and how they're constructed. The overwhelming majority of ETFs track an index. So before we get into ETFs, let's spend some time on what an index is. Then we'll examine the case for index investing, in particular, through the use of ETFs. Like most things, indexing and index investing have changed with the help of new technologies, and data. And so we'll examine some of the different types of indexes. Lastly, with over 2,000 ETFs out there, we'll walk through a framework for deciding which is the right ETF for you.

So, what is an index? An index is an indicator, or a way to measure really anything. In investing though, an index tracks the performance of a group of securities, such as a group of stocks or bonds. Investors use indexes in numerous ways. Historically, they've been used to gauge the performance of a particular market or asset class. They're also often used to gauge personal performance, whether of your own personal account, or perhaps the performance of a third party who's managing your money, maybe a financial advisor, maybe a mutual fund. Indexes are built in a rules-based way, with the objective of replicating the performance of a certain area of the market. An equity index, for example, groups together stocks with certain traits, and takes some sort of average of their performance. This will provide an idea of how that particular industry or market is doing. Indexes come in all shapes and sizes, and although some might have the same ingredients, the recipes could be a little bit different. Just like people have different tastes, investors have different objectives. And if you use the same ingredients, but put in different amounts, you can adjust the outcome in order to address those objectives.

All indexes have some rules or criteria to determine their recipe. For example, an index that seeks to measure the performance of US large-cap companies would only include those companies that are incorporated here in the US, and are above a certain size. Companies that meet those requirements will be eligible for inclusion, while those that do not would be excluded.

So looking at the grid on the right, company A would be eligible for the index, but company B would not, because it is a small and not a large company. Company C would also be excluded. Although it's a large enough company, it's not based here in the United States, but in Canada. But like any recipe, knowing which ingredients you need is just half the battle. The other is how much of each you need to add. The majority of indexes, and index ETFs track market capitalization or market valuated indexes. This means that the amount of each ingredient is based on the size of the company. So a larger company will make up a bigger percentage of the index, than let's say a smaller one.

Indexes are not new, but most investors are only familiar with a handful that they hear either in the newspaper, or on business news. The Dow Jones Industrial Average, for example, is often the most referenced index. But it consists of only 30 large cap index companies. The index chooses how much of each ingredient stock to add, based on the price of the stock, rather than the size of the company. Another commonly referenced index is the S&P 500, which consists of 500 large US companies. Now the recipe for that index adds stocks based on the size of the company; it's a market cap-weighted index. But indexes can get even more granular, with one index commonly used as a reference for US tech sector, being the Nasdaq 100.

Indexing though is not just used to measure performance of US stocks. The MSCI EAFE index consists of large- and mid-cap companies based in developed countries within Europe, North America, and Asia. Indexing is used in other asset classes too; it's not just an equity story. The most well-known bond index, for example, is the Bloomberg-Barclays US Aggregate Index, commonly referred to as "the Ag." It consists of US-denominated investment grade bonds, made up primarily of bonds issued by the US government, as well as corporations.

But indexing has evolved beyond these well-known traditional approaches. Big data, coupled with technological advancements necessary to analyze it, have allowed indexing to delve into more precise and targeted exposures. Once such index is the New York Stock Exchange, or NYSE Global Autonomous Driving and Electric Vehicle Index, quite the mouthful. But it goes beyond just holding companies that make cars. We'll talk a little bit about that one later on in the presentation.

Although some indexes have been around for well over a century, index investing is a lot younger. Indexing is a style of investing. Instead of an investor picking which stocks to own, and when to buy or sell them, an investor builds a portfolio by following the index's recipe, and then we'll hold those securities of that particular index at the same ways. The idea is that by investing in the constituents of an index, the investor will match its performance as well. But this can be challenging for investors to implement on their own.

For example, let's say an investor wanted to create a portfolio that included all the stocks in the S&P 500 at their respective weights. They would need to acquire the list of stocks, then purchase them all, and at their proper proportions, which means entering over 500 trades. And you're not done there. Sometimes these indexes, and the constituents within them, change. It's what's referred to as a rebalance, or a reconstitution. And so you might need to sell a company that was removed from the index in order to purchase one that was added. This all of course assumes that the investor even has enough money to effectively buy all 500 companies.

Well, index funds do all this work for you. Index funds are simple, ways to gain exposure to an index's holdings. They're most commonly available as mutual funds and exchange-traded funds, ETFs. You can buy an index ETF, like our IVV, which follows the recipe for the S&P 500, owning all the sectors and the stocks at the same weight as the index. Index ETFs have really revolutionized how investors access these different asset classes.

So, let's take a closer look at what an ETF is. Again, ETF stands for exchange-traded fund. And they offer many of the same benefits of mutual funds. They're portfolios, managed by investment professionals, who have resources at their disposal that most investors, you and I just don't have. But unlike a mutual fund, they can be bought or sold at any time during the trading day. And where most mutual funds are actively managed, and well talk a little bit more about that in a minute, most ETFs track an index. When we ask our customers what they like about our iShares ETFs, we typically get one of three responses.

First, ETFs provide diversification, providing access to potentially hundreds of securities in just one purchase. They also provide transparency. Most ETFs track an index, which means for any security, whether a stock or a bond, to be held within the ETF, it must be part of the index methodology or its recipe. The benefit of this is that you, the investor, know what it's going to hold, but also, just as if not more important, what it's not going to hold. In fact, you can go to iShares.com, type in the ticker of any one of our over 390 funds now, and find out, as of this morning, what securities it own. Knowing what you own allows investors insight into what risks they're taking on ETFs provide this diversification at a fraction of the cost of mutual funds. With the C of the average ETF being roughly a third that of active mutual funds.

ETFs are less likely to make the kind of distribution referred to as a "capital gain distribution," and which means you are less likely, at least while you're holding the fund, to have to pay a capital gains tax. Obviously if you sell the ETF, you are susceptible to a capital gain tax. But at least during the holding period, you're less likely of receiving such a distribution. This is an often overlooked component of the investment selection process.

It's for these reasons that ETF adoption has been nothing short of exponential. The first ETF was a stock ETF, a stock index ETF. It was launched in 1993. But as mentioned, indexes are not just used in equity market exposure, and the first bond ETF, which again was a bond index ETF, was launched in 2002. Now institutional investors may have been the first adopters of ETFs, but retail investors, both financial advisors and direct investors like yourselves, they quickly followed suit, thanks to the funds' low costs, their diversification and their simplicity. Although it took 16 years to reach the first $1 trillion in global ETF assets, it only took four more to reach the second trillion. And then three for the third, and so on. ETFs closed out 2020 with $7.8 trillion in global assets, with the bulk of that, about $5.5 trillion, in US ETFs.

So now that we've covered indexes, and accessing them through an ETF, let's take a closer look at the different assets and approaches to index investing through ETFs that are available today.

Early indexes and Index ETFs were primarily focused on providing exposure to large groups of stocks. These products sliced up the market by the size of the companies, whether it's a large cap, mid cap, or a small cap. Other index ETFs might focus on providing exposure to specific asset classes, like bonds, in particular. But, indexes are not one size fits all. Many investors have more specific objectives in mind, and one of the more common ones is generating income. There are a number of ETFs that will look at specific attributes of a company, like whether or not they pay a dividend. But Index ETFs have evolved to target not just specific asset classes, but attributes, or themes, or ideas as well, like clean energy, or driverless cars. With vast amounts of data now available, and an increased ability to analyze that data, newer indexes are able to more precisely target an idea, rather than simply an entire asset class.

So let's start by taking a closer look at some broad index ETFs. I mentioned IVV, our S&P 500 ETF, again tracking a market cap weighted index of 500 large cap US companies. Because it's market cap weighted, the recipe calls for larger companies to make up a higher percentage than smaller companies. But to be clear, all of the companies within IVV and the S&P 500, they're very big companies, the average company being worth over $200 billion. Many of the names held within IVV, they're going to be familiar to most people. Apple and Amazon are two major holdings in the S&P 500. IJR on the other hand, tracks the S&P small cap 600. Now the recipe for that index calls for exposure to much smaller companies than you would find in IVV. Where the companies within IVV are, on average, $200 billion in size, the stocks within IJR, on average, are about $7 billion. Small cap stocks tend to be riskier than larger companies, but they could provide more growth potential.

Indexing in ETFs, again, not specific just to equities. Bond ETFs are increasingly being used by investors as well. But the way bond indexes slice up the market is a bit different. Rather than by the size of the issuers, like with stocks, they tend to be broken down by credit risk. AGG, for example, which tracks that Bloomberg Barclays Aggregate Index we talked a little while ago about, it's comprised of all investment grade bonds. These are bonds issued by companies that credit rating agencies view as having relatively low chance of defaulting on their debt. Most of the bonds are issued by the US government, but you'll also see a healthy percentage in there of bonds issued by US corporations, and multinational corporations. But all the bonds are going to be US dollar-denominated, and investment grade.

Another product, HYG, tracks an index that is comprised of riskier bonds that are not investment grade. This means the credit rating agencies view these issuers as having a slightly higher risk of default than an investment grade bond. Because they are riskier though, they tend to provide higher levels of income.

The previous ETFs target specific exposures in different ways. But some ETFs target a combination of exposures, and finding securities with specific attributes. Many investors have particular objectives in mind, and generating income is one that is incredibly popular right now.

One fund that can help address that is DGRO, which is our iShares Core Divided Growth ETF. The methodology tries to narrow down the list of ingredients. Only those US stocks that have a five-year track record of growing their dividends, are eligible to be included, along with some additional criteria.

But maybe DGROs is just not generating enough dividend income for you. Well we also have HDV, our high dividend ETF. The index provider tries to identify companies that have what they call, an economic moat. They're looking for some characteristics, some attribute that allows it to fend off the competition, much like a moat around a castle. How protected is the company's earnings, and therefore the dividends they pay, from the competitors? One of HDV's largest holdings is Coca-Cola. And how is Coca-Cola able to fend off the competition? Other companies can and have created a soda that tastes, dare I say, pretty similar. But they can't replicate the intangible asset that Coca-Cola has, and that is their strong brand recognition. That brand is why we so often pay more for Coca-Cola than the store brand that's right next to it on the shelf.

But stock attributes go beyond dividends and other fundamental characteristics. Some of our newest ETFs track indexes that are targeting specific innovations, or ideas, or trends. Many investors will choose a single company because of some innovative business they're involved in. But choosing which company will become the chief beneficiary of a particular idea can be pretty difficult. On the other side though, you might not want to cast too wide of a net, because then it might water down your conviction. Our megatrend index ETFs allow you to target ideas that you have high conviction in, without going too broad. By targeting not just companies that are directly involved in these innovative businesses, but also the partners, and their suppliers that they have to interact with in order to manufacture their products.

Take self-driving and electric vehicles, for example. We have an ETF, ticker is IDRV, I-Drive, which tracks an autonomous driving and electric vehicle index. For most people, if you asked, the first company that they think of when they think about electric vehicles is Tesla. But Tesla and other electric vehicle manufacturers are reliant on other companies too. For example, if you have an EV in your driveway, or if you're stopping on a road trip, you need a charging station, which a company named ABB is involved in manufacturing. You also need batteries, which LG Chemical helps to build. And the chief ingredient for a battery is lithium, which a company by the name of Albemarle produces.

But there are other trends that investors are picking up on, and looking to invest in. Move to renewable clean energy is another such idea. But companies that stand to benefit from the move to clean energy fit in two buckets: those that provide clean energy, your utility companies, and those that make it possible. Take Orsted, for example, which is a European utility company. They once were primarily fossil-fuel-based, but now derive about 75% of their revenue from offshore wind power. How do they generate that electricity? They need those wind turbines, which a company by the name of Vestis wind systems helps the manufacturer. Both of those companies are in our clean energy ETF, ticker ICLN. These two ETFs are part of our iShares megatrend index products, which try to capture the full range of companies that are positioned to benefit from a trend, which may be a more effective strategy then just trying to pick an individual winner.

Indexing has also evolved beyond what investors want to buy, also what they want to avoid buying. Sustainable investing combines traditional security analysis with environmental, social, and governance metrics, or ESG, for short. These metrics help drive stock and bond selection within these indexes. Increasingly, investors are demanding these types of sustainable strategies. But sustainable investing means different things to different people. There’s no one-size-fits-all. For some investors, they’re focused on avoiding particular businesses, that perhaps don't align with their values. For example, indexes that fit in that group might exclude tobacco stocks, or companies involved in the manufacturing of controversial weapons. A fund of ours that applies this type of approach is XVV.

But still other investors wish to add an additional layer. They want to avoid some businesses, but they also want to invest more of their money with companies that manage these ESG risks better than their peer group. And for those investors, a product like ESGU might be a good fit.

Still others are more interested in the E component of ESG, the environmental component. And for those investors who want to consider a company's greenhouse gas emissions, we have an index ETF ticker, CRBN.

Lastly, for those investors who want to address a specific ESG issue, we have a few index ETF options as well. One is BGRN, or BGRN, which tracks an index of green bonds. And these are bonds that are directly tied to promote climate or other environmental purposes.

Indexes, and index ETFs, go beyond just asset classes and exposures. We have eight ETFs for example that are designed with investors' risk tolerances in mind. These all-in-one solutions allow investors to build a diversified portfolio with just one fund purchase. Investors can choose between a conservative, a moderate, or a growth, or an aggressive risk target. Now these ETFs hold other ETFs that hold US stocks, international stocks, emerging market equities, and bonds. What's interesting, all of these funds, and I'm talking specifically the core series, AOK, AOM, AOR, and AOA, they have the same ingredients, but they add different amounts. And by tweaking the recipe for each, we can change the levels of risk. We offer also a sustainable allocation ETFs, which provide a similar exposure as their core counterparts, while seeking a more sustainable outcome by incorporating those ESG insights that we just discussed.

With all of these great tools available, how do you sift through the roughly 2000 ETFs in the market to choose the right one for you. This is a question we hear all the time from all sorts of investors. And to help, we constructed a framework for evaluating ETFs. When trying to find the right one for you, we think there are four key considerations to keep in mind. The most important is the exposure, which means, you should know what's inside the fund, maybe know a little bit about that index recipe. But also consider the fund manager. Does the fund provider have experience and expertise investing in that specific market? Newer providers or those entering a different asset class for the first time, may need to be monitored a little bit more closely. Next is the structure, or what the ETF is built to do. Make sure the goals you are looking to accomplish align with the funds goals and objectives. Last but not least is cost. All else equal, which is rarely the case, by the way, you'd prefer a fund with a lower cost. But cost goes beyond the sticker price, or the expense ratio of the fund.

Let's take a closer look at structural considerations. It's important to emphasize that not all ETFs are the same. We've been discussing ETFs that track indexes of either stocks or bonds. And these are the most common types of ETFs you'll see out there. But there are also funds that help investors access what would be considered alternative asset classes, such as commodities, like gold or silver, which can help in further diversifying a portfolio. Some ETFs are actively managed, meaning holdings are picked by an active portfolio manager, who rather than give the same returns as an index, is seeking to outperform an index. Some active strategies may be a little bit less diversified, in the hopes of trying to generate higher returns, and typically will have higher fees than your market cap weighted index ETFs. These strategies may also be more subject to the skill of the manager, rather than the returns of the market which they're picking securities from.

And lastly, there are leveraged and inverse exchange traded products, or ETPs. And I want to emphasize that iShares does not offer these types of ETFs. Leveraged funds look to deliver multiples of an index return on a given day, so if the S&P is up 1%, they might seek to be up three times that. Or inverse funds might try and profit if an index is down. So if the S&P 500 is down 1%, some inverse products would seek to be up 1%. These products can carry meaningful risks, and are generally meant for more sophisticated investors, with more short-term needs.

Keeping costs or fees low is also an important part of any investor's success. To evaluate what a fund costs though, we have to do more than just look at the expense ratio. Just like when we go to shop for a car. It's important to consider something other than just the sticker price, like fuel efficiency, or expected maintenance costs. An ETF's total cost includes something referred to as trading costs. Now to be clear, I'm not referring to commission, which thanks to Fidelity is no longer an issue for ETF investors. I'm referring to the implicit cost of buying and selling anything, really, which can be measured by the difference between the price an investor buys a product versus the price they could sell it at. ETFs with lower trading volume tend to have higher trading costs. You also want to consider differences in tax cost. Some funds have a history of distributing capital gains, while others don't have that history, and are therefore more tax efficient. If a fund makes any sort of distribution, you might have to pay taxes on it.

Finally, we should consider any meaningful differences between the fund's performance, and the benchmark you're paying them to track. This information is readily available for all of our funds at iShares.com. Again, simply pull up the ticker symbol, and we will show you the performance of our funds, and the respective indexes.

So, to recap, indexing is a style of investing. Instead of an invest, picking which stocks to own, and when to buy or sell them, the investor builds a portfolio, holding the securities of a particular index, based on that index's recipe. But this can be challenging for investors to implement on their own. iShares index ETFs can help you in that regard. They provide diversification at a fraction of the cost of many other investment options, and are more tax efficient than traditional mutual funds. An investor can get exposure to hundreds, in some cases, thousands of securities, with just the purchase of one ETF. And indexing has evolved, so that investors can find an ETF for not just a particular exposure, but a particular idea or objective.

Thank you all for your time, and with that, I will be turning it back to Heather, who will be walking you through some tools on Fidelity's website.

Heather Knight: Thanks so much, Sean. We really appreciate it. And we definitely have a lot of questions coming in, so I'll show a couple things, and I think that you maybe touched base on throughout your presentation. What I really liked was really the way that you described the ingredients to an exchange-traded fund. I think that's critical for us to understand, and know that it could be different, you know, objectives for the index that we're tracking, or even ideas or themes, and thinking about cost as well as exposure, and in addition to that, just knowing the firm that you're working with when we look at the provider of the exchange-traded funds.

So, a couple of things that I wanted to share quickly with you, and keep in mind, we'll have a longer presentation, which is demonstrated, related at the end of the day today. But if you were looking at your overall account positions in your portfolio, the best way to analyze where you're currently at is to actually utilize the analysis tab. We talked a little bit about market cap, and different types of areas that you might be wanting to add to your current portfolio based on your needs, so this really does give you a good idea as to not only just your asset allocation, but also your sector and style box breakdown. So if I scroll down to the bottom and I clicked again on the analysis tab, I can see that there's something here that says "learn more about your stock style." So if I were to be looking at all of my accounts, or I want to be even, take a look at a couple different accounts that maybe, or thinking about like what positions might I be adding to my current portfolio, you can actually add up accounts up here, or create your own just by clicking "Account selected," or deselect ones that wouldn't make sense for you.

So in the stock analysis, we actually break down all of your individual securities, as well as your mutual funds, and in addition to that, exchange-traded funds. So you can truly see all of your collection of ETFs, or funds and stocks, and how that actually puts you through to waiting. So that's again, underneath the analysis tab, and then I just clicked on the style box. The blue-shaded area is where you're at, and as referenced, you could use the Dow Jones Total Market Index as a broad-based number to see where that currently lies.

With that, I'll show you one more thing that I think is important for us, particularly after this presentation that Sean just did. If you go into "News and Research," and you come down to ETFs, this will bring you to the home page of our ETF center, where you can learn more, search, or compare different securities. You can actually click directly on iShares, and it will actually direct you to already what we call different themes or ideas to help you throughout your search process. If I were to click on all iShares ETFs here to the left, it will display a list of every exchange traded fund underneath the iShares house. You can still compare and add your own ETFs in here as well, just by clicking in "Add My ETFs" up in the upper right hand corner below that technical tab, so I can type one in. And then I can drill down my list of securities from here as well based on some of the things that Sean had mentioned. So off to the left-hand side, there's a menu of all the things that you can actually take the list and narrow down more, or you can click on the "View All" tab, and I can select things like style box, or my market cap exposure, to get an idea as to which particular securities are focused on that particular objective. So if I was looking for a mid-cap growth, for example, and I wanted to check that off, it would isolate specific securities in that particular mix.

So I wanted to give you that, just kind of touch base on it. Again, we can certainly work with you one-on-one when we look at the exchange-traded fund screener. But I think primarily, the big thing is, is to know where to find a list of all these ETFs, and then start your process of comparing them. When you look at a particular ETF, and one of them that was mentioned today was IJH, you can always find a description of everything underneath it, including the objective of the exchange-traded funds, as well as the make-up, and how it actually falls within those style boxes. So here's your profile up at the top. You want to make sure you read it, because that does tell you the index that it's tracking, and it actually shows you the performance against the actual index that it's tracking itself.

So with that, I'm actually going to turn it over to a couple questions. Like I said, Sean, we have so many that came in, so I'm excited to chat with you a little bit more, and get some of those started right away.

So one of the first questions that came through which I think is quite interesting, but we don't always talk too much about, but it's really in relation to the rebalancing of an ETF. So, can you talk a little bit about the process, Sean, of rebalancing an ETF, and how that might even affect the average investor?

Sean Murphy: Yeah, absolutely. So as I mentioned, a lot of the indexes that we track are going to have rebalances or reconstitutions, depending upon the index. So, S&P Indexes, which we just touched upon with IVV, IJH, and IJR, they can change monthly. Other indexes, like the MSCI EAFE index that we mentioned earlier, and we have a fund that tracks that, EFA, they tend to reconstitute semi-annually, so once in May, and once in November. Now, we work very closely with these index providers. And so we find out, we essentially are notified, hey, these are the securities that are going to have to be removed from the portfolio; these are the securities that are added. And we do those in conjunction with the index provider, around basically the same time. They usually implement those at the close of a particular trading day, and we'll do the same. So, that's typically something that we're going to have to be doing. We do that on your behalf. Again, if you wanted to try and, you know, not pay an index ETF fee, which for many of these products, we're talking in the basis points, very low fees, you're going to have to basically do all of that reconstitution and rebalancing for yourself, which again, is going to be a bit of a challenge.

Heather Knight: Thanks Sean, yeah, it's definitely a challenge to try to manage something like that on your own. You can always see the rebalancing to, or at least see the structure of that, typically in the prospectus, or the intent of that, as the index changes. But one thing to be aware of for everybody on this call, is that, when you type in an exchange traded fund that you're looking at on Fidelity.com, if you scroll down to the bottom, you can actually see all of the underlying assets that are inside of that exchange traded fund, and those are typically updated on a daily basis, or as often as is provided to us. So thanks for that, Sean.

In thinking a little bit about some of the things that you talked about earlier, what drives the price of an ETF? Thinking, is it the top line ETF flows of supply of demand, or is it the bottom-up supply and demand from withholdings?

Sean Murphy: Well, the great thing about an ETF is, even if we get a lot of inflows into the fund, that's not going to necessarily move the price. We can inflows into an ETF that's actually down on that day. And the reason is because, when new assets come into the fund, new shares of the ETF are issued by the same proportion. So fund flows are not necessarily going to be impacting the price of particular ETFs. The ETF price is largely driven, the price returns are largely driven by the asset class. So when equity markets are up, we'll be up, assuming that, of course, we're tracking that index that I refer to. And when fixed income markets and bonds are down, our bond ETFs that are designed to track those indexes, well we view it as a success if those funds track those indexes well. So if that index is down, you would expect our bond ETFs to be down as well.

Heather Knight: Good point. Thanks for that, Sean. One of the things you also mentioned, and again, this was one of those basic pieces of what we want to look at when we're looking at an ETF is that cost. And so, can you talk a little bit why some people might charge more than others for an ETF that might look similar? And what are the impacts of purchasing an ETF that might actually have a higher cost associated with it?

Sean Murphy: Yeah, great question. So some indexes, a lot of the more traditional market cap-weighted index ETFs, those are typically going to be the lowest cost options you see out there. So IVV, for example, our S&P 500 fund, has a three basis point expense ratio. That means for every hundred dollars you invest, we're taking three cents per year. But then, as mentioned, we've seen an evolution in index construction. Market cap weighting, creating a portfolio that's market cap-weighted, is a little bit easier to do than let's say a product like IDRV, the one we discussed. In order to get that list of companies that are involved in the entire supply chain, well that index required a little bit more analytical work. So some of the more complex indexes are going to have higher fees, and you'll see that reflected in the ETF.

Heather Knight: Great, thanks, and just finally, one question that'll ask you, or maybe that I can answer that really is, do ETFs have a minimum amount to invest? And so, the answer is no, right? We actually have a lot of flexibility in being able to make purchases, and especially nowadays where you can even do fractional trading, so. So, I do have one last question I think we can squeeze in today. Hopefully you're up for it, Sean.

Sean Murphy: Absolutely.

Heather Knight: The one big question that they have is, and I think this kind of goes into the difference a little bit between maybe a mutual fund and an ETF potentially, but why, you know, in what situations might investors choose an ETF, but when might they avoid an ETF as well?

Sean Murphy: So, I work for a firm, BlackRock, that is involved in both sides of the business. We have index strategies, and we also have active managers. And we strongly believe that both types of strategies have a place in the portfolio. There are going to be opportunities out there to outperform an index. An index is going to give you essentially the returns, an index ETF is going to give you the returns of the index. But if you have confidence in a manager, let's say a particular portfolio manager or firm has shown the ability to pick the right stocks, well absolutely, consider using an ETF alongside that, keeping in mind that again, some active strategies tend to be a little bit more concentrated. There might be, instead of 500 stocks like the S&P 500, maybe there's only 50 or 60 that they really like in that group. So think about pairing an active strategy with a low-cost index strategy in order to improve diversification, but also reduce those costs. Active strategies tend to, in aggregate, charge higher fees. So there's always a balance based on your own objectives, but we do think that there's a place for both in portfolios.

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ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

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