TRANSCRIPT

iShares: Building an income-seeking strategy

Speakers: Don Raymond & Sean Murphy

Don Raymond: Hello to all of our new viewers, and thank you for those that viewed our last session and coming back. My name is Don Raymond, I'm a regional brokerage consultant for Fidelity Investments. My role is designed to support investors that are making their own investment decisions. Fidelity has many tools and capabilities, and my role is designed to help you better use those capabilities and feel more confident in your investment decisions. Our next session is building an income strategy using ETFs. Many people that I talk to are looking for income, and there are so many choices. One possible way to achieve this goal is using ETFs, and we are working today with Sean Murphy from iShares. He's going to talk more about how to use ETFs as a low-cost approach for finding potential income with both bond and dividend paying ETFs, stock ETFs.

Let me introduce today's speaker, Sean Murphy. Sean is an iShares product consultant from Blackrock. Sean has been with Blackrock since 2014, and his primary responsibility is researching, analyzing, and evaluating a broad range of investment solutions and delivering these insights to internal partners, as well as end clients. With that, Sean, let me hand it over to you, and we do look forward to the presentation today.

Sean Murphy: Thanks Don, and good afternoon everyone, thank you all for your time today. Again my name is Sean Murphy, I am an iShares product consultant at Blackrock. Before we begin, let me just say that on behalf of myself and Blackrock, I hope all watching, as well as your family and friends, are healthy and doing well, staying warm during this difficult winter. Today I'll be discussing ways to build an income generating strategy using iShares ETFs.

We'll start by looking at the challenges we all face when it comes to finding investment solutions that generate income. Then we'll take a look at how ETFs can be used as an efficient and low-cost way to gain access to income-generating asset classes. Now one thing to note upfront is there is no one fund, no one investment that is right for everyone. The key to finding the right products for you are understanding your income needs, and what risks you have to take to get there. So we'll look at some things to consider before you put your money to work. Lastly, we're going to take a look at some of our ETF solutions, our ETF income toolkit, if you will, to consider using when you're building your income strategy.

So why are we talking about this? Well for investors looking to generate some income without taking on too much risk, the financial landscape is not providing much in terms of solutions. Interest rates have been low for quite some time now. And just when we thought they couldn't even get lower -- this is my fifth Fidelity presentation, and every time I've used that line, that I didn't think rates could get lower. Well then 2020 happened. I've seen advertisements in print, or outside of banks, touting rates on savings accounts that are, and this is a technical term here, bupkis. The interest earned on the average savings account is next to nothing. And even if you lock your money up for a year, or even five years, the average CD yield isn't much better. But none of these rates, on average, are meeting expected inflation. So if you're not earning at least the rate of inflation, well you may not be losing money, but your money is losing value.

Now I know what some of you are thinking. In relation to where inflation has been historically in the past, we're in a period of relatively low inflation over the last, let's say, 10 years. The inflation rate in 1980 was just shy of 13 percent, compared to last year's inflation, which was just shy of 1.5 percent. But the compounding effect of year over year inflation, even low inflation, can be meaningful.

For example, a basket of items, let's say at the grocery store, that cost $100 in 2011, based on inflation data, now costs about $120 today. So just because inflation is relatively low, doesn't mean you can ignore it. You may not be losing money by putting it under your mattress, but that money is losing purchasing power. Inflation, though, is just one consideration for income investors.

For bond investors, there are two additional risks to consider. The first is interest rate risk. Now I like to think of interest rate risk as a sort of buyer's remorse for savers. Let's say you and a friend are out for a walk, you walk by your local bank branch, and you see an advertisement in the window for a CD rate that you like. Let's say it's 1 percent. I know, not realistic right now. But, 1 percent for a six-month CD. Well you and your friend go in, you sign up for a six-month CD, but your friend gets a slightly higher rate, and signs up for a one-year CD. Well a week goes by, you walk by that same bank, except now the rate on both the 6 and the 12-month CD have gone up meaningfully. How would that make you feel? Probably a little bummed out, right? But who's going to regret that decision more? At least in six months, you'll get your money back and can potentially reinvest in those higher rates. But your friend has to wait the full year, walking by that bank, seeing those higher rates, kicking the ground as they do. The friend took on higher interest rate risk by locking their money up for a longer period of time. And so they're more sensitive to a moving rate. The financial jargon for this is duration, which is a measure of interest rate sensitivity. Typically, the longer the amount of time for a bond to mature, the more duration it has.

Now the second risk is credit risk. Credit risk is the risk that a person or a company that you lend money to might not end up being good for it. For example, let's say you have two cousins. The first is cousin Alice. She owns her own business, and it's doing pretty well! She lives well within her means, doesn't buy any unnecessary expensive items, go on extravagant trips. But you also have another cousin, and that's cousin Charlie. Charlie bounces from odd job to odd job, doesn't really save his money, and he primarily spends his money to fund videogame purchases. Now imagine both Alice and Charlie ask to borrow money. One of those cousins, based solely on the information we have, would be a higher credit risk borrower. Cousin Charlie.

Now before we go on, one point of clarification. I am in no way insinuating that those who play videogames are a higher risk borrower, because if that were the case, I'd have a really hard time getting a credit card. Moving on.

Let's take a closer look at how interest rate risk impacts the bond market. To do so, we're going to take a closer look at 2018, which was the last time the Federal Reserve Bank raised rates. They did so three times in the first nine months of the year. That's sort of like seeing that bank you got the CD at raising that CD rate three times. But the impact for bond investors is different. Bond investors don't have to hold their bond. They can sell it. And when lots of investors sell something, what happens? The price goes down. The chart on the right of this slide shows you the price movement for three U.S. Treasury indexes. So all of the bonds in all three of the indexes are from the same issuer, the U.S. government. But because of the length of time until those bonds mature, the investor experiences vary.

One index, represented by that blue line, consists of Treasuries with no more than three years until maturity. Well how did that bond portfolio do during that time period? It was essentially flat, let's say, by the end of September.

What about bonds with a bit more interest rate risk? The gray line represents an index of bonds with between three and up to seven years to maturity. During that same nine-month time period, that index lost over 1 percent.

Lastly, what about bonds with way more interest rate risk? So the black line here represents an index of bonds with between 10 and up to 20 years until they mature. That index was down 4 percent. So even though all of the bonds were issued by the same borrower, the U.S. government, investors had varying performance depending upon how much interest rate risk, or how much duration, they took on.

Now on the flipside, when interest rates are going down, the opposite tends to happen. You could essentially flip this slide over on its axis. If you lock in a CD rate and the bank lowers the rate it offers the next week, well you're not feeling disappointed anymore, you're feeling pretty good about it. Likewise, when rates are going down, duration is often your friend.

Moving onto credit risk, companies that are looking to issue bonds, looking to borrow money, how do we know the level of credit risk? Well there are rating agencies that evaluate bonds and bond issuers, based on the strength of the company. One of these rating agencies is S&P, Standard and Poor's. They rate bonds, bond issues, using a scoring system that starts at AAA, and goes down to D. Companies that have manageable levels of debt, good earnings potential, and a good record of paying back their debts, well they're going to have a good credit rating. Those issuers on the left with BBB ratings or higher are considered investment-grade. And the rating agency essentially believes that they have a low risk of default.

Now those issuers with credit ratings of BB or lower, those are non-investment grade. They're often referred to as high-yield. And the rating agency believes that they have a higher risk of default when compared to companies that have higher ratings.

To better understand the implications of credit risk, let's examine what happened in the first three months of last year. As COVID became a global crisis, stocks around the world began to sell off, including here in the U.S. On the left side, the S&P 500 index was down, at one point, nearly 30 percent. Segments of the bond market also came under significant pressure. Because the ability of borrowers to pay back their debts was going to be challenged. When bond investors are worried about whether or not they're going to get their money back. They tend to seek out the cousin Alices of the world, and avoid the cousin Charlies.

So as evidence of that, let's take a closer look at the chart on the right. The white line represents an index that consists of all U.S. Treasury bonds, regardless of length to maturity. The U.S. government has a AAA rating.

Essentially, no credit risk. They can print more money, literally. During that equity selloff, investors looked for safety, and U.S. Treasury bonds were up over 8 percent. Now the dotted line represents an index consisting of bonds issued by corporations. All of the bonds in that dotted line index, they're investment-grade rated. So BBB or higher. Even though they're all investment-grade, there is credit risk in corporate bond, even great corporate bond issuers. Because those companies are reliant on generating net income, generating revenue, to pay back their debt. During the first three months of last year, those bonds were down about 4 percent.

Lastly, that solid black line represents an index consisting of bonds issued by non-investment grade companies, those high-yield companies. In relation to investment-grade, they're deemed, again, riskier by the credit rating agencies. And so that index lost about 13 percent in that three-month span.

Now again, this chart illustrates when credit risk can hurt a portfolio. But the last nine months of 2020 were actually pretty good for credit risk. When the economic outlook is improving, that's when credit risk is often rewarded. We have lots of ETFs that have differing levels of rate and credit risk. But before we get into those options, let's first discuss what an ETF is, and why you should use ETFs in the first place.

ETF stands for exchange traded fund. And they offer many of the same benefits of mutual funds. They are portfolios managed by investment professionals who have resources at their disposal that most investors don't have. But unlike a mutual fund, they can be bought or sold at any time during the trading day. 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, even thousands of securities, with the purchase of just one ETF. They also provide transparency. And what do I mean by that? Most ETFs, the overwhelming majority, track an index, which means for any security, whether a stock or a bond, to be held within the ETF, it must meet certain rules. The benefit of this to you, the investor, is that you know what it's going to hold, and almost just as 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 380 ETFs, and find out, as of this morning, what securities it owns. Knowing what you own allows investors insight into what risks they are taking, and what risks they're trying to avoid.

ETFs provide this diversification and this transparency at a fraction of the cost of many other investment options. This is especially important for income investors. Because distributions paid to investors are after fund fees are taken out. So all else being equal, if you had two ETFs with the exact same portfolio of bonds underneath, and one has a lower fee, it's going to be making higher distributions than the one with the higher fee.

And lastly, for taxable investors, ETFs are more tax-efficient. Many of you have probably already filed or are preparing to file your tax return. Well ETFs are less likely to distribute something called capital gains. Capital gain distributions. Which means you are less likely to have to pay a capital gains tax. This is often an overlooked component of the investment selection process. If you're not thinking about tax efficiency, you're missing a major part of the equation.

So, we've talked about some of the challenges, and the risks income investors face. We've talked a bit about ETFs as a tool that investors can use. Now let's take a closer look at some of our more commonly used income solutions. And we're going to start by examining some of our bond ETFs, primarily through the lens of credit and interest rate risk. But we'll also look beyond bonds, and check out other asset classes, like preferreds. Preferreds are not quite bonds, but they're not quite stocks, either, which is why they're often categorized or thought of as hybrid securities. Lastly, we'll talk about some of our equity funds that are all focused on those stocks that pay dividends. All of those funds look for companies that have certain characteristics that we believe help address some of the risks associated with dividend investing.

So let's start by checking out some of our investment-grade corporate bond options. Our broadest corporate bond ETF is ticker USIG. U.S. Investment Grade. It is one of our lowest cost bond ETFs. The expense ratio of the fund is 0.06 percent. Which means that for $100 invested in the fund, the fee is about 6 cents per year. It is incredibly diversified, currently holding over 7,000 bonds in one fund. It tracks an index of all investment-grade corporate bonds, regardless of maturity.

Now currently, its duration is just over eight. For some investors, perhaps that's a bit more interest rate risk than they'd like to have. Or, maybe it isn't high enough. And so to provide investors with even more choice, we have three funds that target certain maturities within the investment-grade space.

The first one, IGSB, Investment-Grade Short Bonds. That's going to hold bonds that mature within five years. IGIB, or Investment-Grade Intermediate Bonds, that's going to hold bonds that mature between 5 and 10 years. And IGLB, which will hold bonds that mature in 10 years or more.

Now notice the relationship between duration and yield of those three funds in the bottom right corner. The longer maturity bonds you own, the more risk you're taking on, the more duration. But you are compensated with a little bit higher income.

Now let's look at those corporate bonds that have a high-- that have higher credit risk, and that high-yield component we talked about earlier. Our broadest and lowest cost high-yield ETF is ticker USHY. Like USIG, it has a low expense ratio of 0.15 percent. It also casts a very wide net, with over 2,000 bonds in one ticker. You can use USHY to complement a lower risk, perhaps all investment-grade portfolio, to help enhance your income. USHY is going to own high-yield bonds of every maturity. But we have another fund, SHYG, which will only own bonds with less than five years to maturity. You can use SHYG to get exposure to some of those higher yielding bonds, but lower the amount of interest rate risk or duration you're taking on. Again, as you can see in the bottom right-hand side, although both ETFs have exposure to similar quality bonds, all of the non-investment grade, USHY is going to yield a bit more because of the higher interest rate risk that fund has.

So, now having covered the corporate bond offerings we have, let's examine bonds issued by the U.S. government. Treasuries. Now as they're backed by the U.S. government, they have no credit risk, but they are still vulnerable to moves in interest rates. Because there's no credit risk, this portion of the bond market is not yielding all that much. Now I know what some of you are thinking. "I thought this was an income presentation, why are we going to be talking about products that aren't yielding much?" And that's a fair point. GOVT is yielding about 0.5 percent. And SHY, even less. But the reason why I wanted to bring these funds up is not because of what they are yielding, but because of what they can do to overall portfolio risk.

The chart on the right should look familiar, it's from earlier when we were looking at how certain types of bonds behaved in the first quarter of last year. Bond exposures with credit risk, like the corporate bonds we just looked at, they sold off when credit risk was on the rise. But the green line represents the index that GOVT tracks. Treasuries were up about 8 percent in the first quarter of last year. They're a great diversifier against credit risk. They have low correlation to some of the riskier parts of the market, which is just a fancy way of saying that when the risky stuff tends to zig, Treasuries tend to zag.

So think of using Treasuries alongside other, riskier income ideas, to help diversify some of that credit risk away. Sure, you're going to have to give up some yield, but by doing so, you potentially can create a smoother ride.

GOVT is our broadest Treasury product, it's owning Treasury bonds of all maturities. Now again, although Treasuries do not have credit risk, they do have interest rate risk. So if you want Treasury exposure, but with less interest rate risk, consider SHY, which only owns Treasuries with less than three years to maturity.

So we've covered the bond portion of the toolkit, and before we get to some equity dividend options, let's take a look at another common income tool. And that is our preferred ETF, ticker is PFF. The first question I'm sure some of you have is, "What is a preferred?" And that's a good question. Preferreds are sort of like bonds, in that they pay a distribution, they have a par amount, but they also have similarities with equities. Many preferreds are perpetual in nature, meaning they don't have a set maturity date. And just like stocks, they're below bonds in the capital structure. So what does that mean? Well if a company goes bankrupt, bond holders are the first ones in line to try and get some of their money back. Preferred and common stock owners, they're near the bottom of that pecking order. What this means is preferreds will have higher credit risk than let's say a bond issued by the same company.

So why PFF? Well, the fund is currently yielding north of 4 percent. It is highly diversified, with over 500 securities. So think of using PFF alongside some of those other traditional income solutions, like investment-grade bonds, to enhance your yield. But again, from a risk perspective, PFF has some significant credit risk. During the first quarter of last year, for example, it was down similar to that of high-yield bonds. So think of maybe pairing PFF also with some lower risk exposures, perhaps Treasuries.

Finally, let's take a look at some of our equity dividend solutions. But before we do, let's examine why income investors are increasingly looking at equities for their income needs. Then we'll examine how dividend paying stocks tend to behave in relation to other equities before we finally take a look at how some of our dividend ETFs seek out companies with good defensive characteristics, as these types of companies are more likely to continue to pay their dividends going forward.

Bonds historically have been the default first option for income. But equity also can address this need. In fact, for a balanced portfolio, when we say balanced, we mean like a 60 percent stocks, 40 percent bonds portfolio, equity has been playing a larger and larger role in income return. So what you're seeing here is the impact of the trend in lower bond yields over the past decade. The pink area represents the portion of the income received from that 60/40 portfolio that is coming from equity. Fixed income, as we've already discussed, is not paying as much income as it used to, but equity income has actually been holding pretty steady, if not increasing over the past few years. Case in point, even though 2020 was a challenging year for the economy, it was a record year for dividends from stocks within the S&P 500.

Besides the income, dividend paying stocks have provided attractive returns. Although they may lag non-dividend paying stocks during a bull market, as you can see on the left, the black bar representing dividend payers, the pink bar non-dividend payers. They have tended to weather down markets or bear markets better. And why is that? Well the ability to consistently pay dividends suggests that a company is mature, has good cashflow, probably has good cash on-hand, as well. And strong cashflows are a sign of a company that is relatively stable.

But there are pitfalls in dividend investing. Now I realize this is a busy slide, so stay with me. As was shown on that last slide, companies that cut their dividends significantly underperform those that maintain them. But those stocks that are likely to cut their dividends often are the one income investors find the most attractive. It's what we call a yield trap. I'd like to focus your attention on the left-hand side of the slide. Imagine on Monday you're considering buying one of two stocks. They're in the same industry, they're both priced at $10. And both of them, over the past year, paid dividends of 50 cents. Well the yield of a stock is calculated by dividing dividends by the price of the stock. So 50 cents divided by $10. Both stocks, they're yielding 5 percent. Well on Tuesday, company A announces a new technology that they developed that's going to allow them to eat company B's lunch. By Friday, company A's stock has gone from $10 to $11, it's up 10 percent. Because the price is higher than it was Monday, the yield for A has actually gone down. It's gone from 5 percent to 4 and a half percent. And as for stock B, well its price went from $10 to $9, down 10 percent. Because again, company A is going to eat their lunch. Because its price, the denominator in the yield calculation, went down, now its yield is north of 5 and a half percent. If an investor is just looking at yield, then B might seem more attractive. But what the price of the stock is telling you is that B's ability to make money and pay dividends has decreased. As the famous line from *Star Wars* goes, "It's a trap."

Now that we've covered some of the benefits and risks of dividend investing, let's examine some of our dividend ETFs. The first fund up is DGRO, our iShares Core Dividend Growth ETF. Now it tracks an index of stocks that have a few things in common. For starters, they must have a five-year track record of not just paying dividends, but growing those dividends. The fund's index has some rules in place to try to avoid some of those yield traps, as well.

For one, we examine something called a dividend payout ratio. Essentially, if the company is paying out dividends that make up 75 percent of the firm's earnings, well then the likelihood that that company can continue to grow that dividend is lower. So those stocks are excluded. When we finished screening out some of the riskier names, we're left with a very diversified portfolio of over 400 stocks, many are very familiar to us all, well if you look at the top 10 holdings, Apple and Microsoft are at the top.

But as the name implies, DGRO is focused on dividend growers, not necessarily high dividend payers. For those types of stocks, we have our high dividend ETF, and the ticker is HDV. I mentioned earlier, yield is a historical metric, and we're after future income. But we don't have a Magic Eight Ball, right? What we want to do is examine a company's strengths and weaknesses to help find those companies that have a better chance of sustaining those high dividends. The index provider tries to identify companies that have what they call an economic moat. Well what does that mean? They're looking for some advantage that the company has that's hard to replicate, that allows it to fend off the competition. Think of a moat around a castle. How insulated are the company's earnings, and therefore the dividends that they're paying, from the competition? You can see here, number eight holding, Coca-Cola.

The resulting portfolio consists of 75 stocks, all with high dividends, again, many of which are household names. Both DGRO and HDV are very well diversified, but let's think about going even wider. They're, those two funds are U.S.-focused. Consider going international as well. For international equity income, we have IDV, which combines elements of HDV as well as DGRO. The index it tracks looks for stocks with higher yields, but also some history of growing their dividends as well. The resulting portfolio consists of 100 companies from developed markets around the world.

So, to recap. Income generation is harder than ever, but iShares ETFs can help. We examine traditional sources of income like those found in bond ETFs, but also looked at equity and preferred ETFs as well. Before choosing an income solution for you, though, we need to figure out the level of income you need, and just as important, what risk you have to take to get there. Higher levels of income often mean higher levels of risk, so know what risks you're exposed to. And as always, make sure to diversify. ETFs can help in that regard. They provide instant diversification with transparency that allows you to know what risks you have signed up for.

Thank you all for your time, and with that I'm going to turn the call back over to Don, who's going to show how Fidelity's website can help in analyzing and investigating income ETFs.

Raymond: That's great Sean, thank you for all the information, lots of great information, lots of great detail, which we really love. Let's take a few minutes now, we're going to look on Fidelity.com, where can we find some of that information that you talked about? Where can we learn a little bit more about exchange traded funds on our website? And then of course, we really want to spend a few minutes on questions, as we have a lot of great questions that came in, and thank you everyone for submitting them.

So let's get started here. Sean, let's say for example first, I'm maybe relatively newer to ETFs, and I just want to learn a little bit more about ETFs as a product before I start looking at ETFs as a solution for my portfolio. Where can I go on Fidelity to do that? You'd want to start here on the top, on news and research, and then find your way down here to our Learning Center. So on news and research, then Learning Center, lots of great information in here. If you have the time, I would encourage you to explore a bit as you're going to find a lot more than just ETF education on here, but lots of great topics.

For today, of course, let's say we're going to learn a little bit more about ETFs, very easy to do, let's just find our way over to the left, where it says investment products. And let's just click here on ETFs. What type of information do we have? All kinds of information. You can sort by topic, so let's say for example, I wanted to learn maybe the basics of ETFs, I could just click and hit go, and it's going to bring me to basics of ETFs. If I want to see the other type of information that I have in here, I know some of the things that we mentioned was scrolling through and taking a look at different types of ETFs, you can see fixed income ETFs, actively managed ETFs, index ETFs, information on all -- I know when I talk to investors, this is kind of like a big, big talking point right here, or question is, "Where can I learn a little bit more about how ETFs and mutual funds compare?" And note that on all of these, you can scroll, and there's more information for you.

Come in here and choose any of the topics, whether it's beginner level, intermediate, or there is some advanced information in here, too. It can really help with your product knowledge on exchange traded funds that will help you become more confident when you're doing the research on the funds themselves to see if they are a good fit for your portfolio.

So let's dive into some of what Sean mentioned next. I'm going to go back to the home page of Fidelity.com, and same thing as before, I'm going to start on news and research, but instead of going to Learning Center, where we went, I'm going to find my way to ETFs. So news and research, ETFs. Let's take a look at what is on here. So this is our exchange traded fund research center, with all kinds of helpful information to help you find your way around, whether it's looking for a fund, comparing a fund, or doing research on a fund, maybe something, one of the funds that Sean talked about.

So before I take us through, let's start on the top here. The universe of ETFs is over 2,000, so it's growing, and growing, and there's lots of funds to choose from. So what we've done to try and simplify it for our investors is we created these different tiles or shortcut buttons, if you want to look for Fidelity funds, iShares funds, funds by market cap, total market funds, large cap funds, international funds, you can search by sector, you know, if you're looking for like a real estate fund, or a fund that tracks healthcare or utilities, it's all there. Here's the bond fund space, so if you want to look for different types of fixed income funds, start here and you'll have different choices, and you can search the universe of funds there.

I do want to point this out, and then we'll take a look at some of the funds that Sean mentioned. If you want to search by stock, you can put up to five different stock symbols, and what it will do for you is, it will provide the ETF that has the most exposure to that one, two, three, four, or five stocks that you may be interested in.

Over here, we can compare. So maybe we were taking notes on the presentation, and you noticed that there were a lot of different that Sean mentioned, even in the same category. But if you want to do a comparison of some of those funds, great way to do that. You could take two or three of those funds that Sean talked about in that same category, put them in here, and you'll have all kinds of helpful information so that you can do that fund comparison to see which fund might be most appropriate for what you're looking to accomplish with your income generation of the portfolio piece.

And then of course, find similar. A lot of the investors that I talk to come to me with fund symbols, but they might want to look for other funds that are similar, or just something to compare to, because Sean, sometimes I get the question, "Well, what is a high-yield, what is a low-cost?" Everything's relative to something. You can find similar funds here and do comparisons, simply by just using this Fidelity tool.

So let's dive in for a minute or two and look at some of the funds that you mentioned. If I know the fund name I can just type in the name, if I know the fund's symbol, and I know some of the symbols because you shared them with us. So let's start with the equity fund that you used, DGRO. And I'll hit enter. It's going to bring us to the information that you talked about, about this fund, and a lot more. So I know the name of the fund, iShares Core Dividend Growth ETF. You did mention, Sean, that this is a dividend growth ETF, and not necessarily a high dividend ETF, that was a different fund. You have the most recent price, as we look, we have our volume, which is very important, right Sean, when we're thinking about an ETF, volume's something to pay close attention to.

You did mention cost. Here's your cost, here's your net expense ratio, and that is pretty low-cost. Here's your 52-week performance, so if you want to see how the fund has performed, and it's worth noting here, this is price performance, not total return. So when we're looking at dividend funds, we can also look at total return on the page, too.
Prospectus and fund objective, what's this fund looking to accomplish? It's all right here for you. You can see the analyst ratings, from Fact Set and Morningstar, are available to you.

As we scroll down a little bit more, ETFs, Sean, trade like a stock, so they chart like a stock, so then you can compare other funds, you can compare indexes, that's all done right here. I'm going to scroll a little bit further down, because this is one thing that you mentioned was diversification. And if you were to buy one share of DGRO, you're getting right now 396 different holdings. These are the top 10, which represent about 26 percent of the portfolio.

The other benefit of an ETF is the transparency, right? Knowing everything of what you own. You have a link right here on Fidelity.com and you can get all of the holdings, so you can know what you own, you can know all the different holdings, and one thing that I like to bring up too in my conversations, Sean, is simplification, right? If I wanted to go out and buy these 396 holdings, how much work is that going to be? It really simplifies the process to get all that diversification through one trading symbol.

The last piece, or one other thing that you talked about that I want to mention, so I can still give us some time for questions, is the tax efficiency piece. If I wanted to do my research or my homework on this, if I scroll to the bottom of our research page, distributions and expenses, as you come in here, you'll be able to see what types of distributions has this fund provided to its shareholders over the last few years. Are they dividends, which we're noticing they all are here? If there were any long or short-term capital gain distributions, you would notice them here, which we're not seeing. But if they were here, you'd notice them there. Remember, I went to news and research, then ETFs, to get to this space. And then from within here, I can start with the fund name if I want to do research on the fund that I know, or I can use our screener to look for funds that I might want to do some homework on.

So with that Sean, let me go over to our questions, because we have about five more minutes for questions, and I'd love to get to as many of them as I can. So here we are.

Murphy: Sure.

Raymond: Sean, first for you, how do I maximize the return for my cash using ETFs? If you could talk to that.

Murphy: Yeah, great question. So typically when someone asks about maximizing cash, or a cash-like solution, you're often thinking about a very low risk investment. Something that has very low interest rate sensitivity, so low duration, and something that has very high credit quality. Now those two characteristics, if you're taking very little interest rate risk and very low credit risk, you're obviously going to have a lot lower yield. But some of the funds that we talk about with financial advisors and with end clients, when they're looking for let's say a step out of a money market, so you're not looking for equities, you're not looking for preferreds, but you're looking to take on a little bit more risk than let's say a money market, a couple of fund suggestions, ICSH, that's our iShares Ultra Short-Term Bond ETF. It is actively managed, so it does not track an index, but it owns a lot of the same things that money markets own, in addition, it will own some short-dated, or short maturity, investment-grade bonds.

A couple of other options out there, we mentioned IGSB, Investment-Grade Short Bonds. Now that is all investment-grade corporate bonds, one to five-year period, and so that's a pretty safe investment, you know, we're talking about companies that have a very high credit rating from credit rating agencies. And the duration is going to be somewhere around that two and a half range, so not a great deal of interest rate sensitivity.

As I mentioned, we have 380-plus ETFs, I can probably think of 10 that I could, would think of to answer this question. But those are the two that come to mind first.

Raymond: Okay, great. Let's go right into the next question here, Sean. Any reason to go with a passive ETF over an active ETF? So maybe some of your thoughts there on both. And maybe a quick hit, because we did look at DGRO, what type -- we didn't look at the investment philosophy of that fund, if you can maybe talk to that a bit, too.

Murphy: Yeah, you know I think ETFs, index solutions work great alongside active solutions as well. DGRO has a couple of criteria, whereby we're essentially excluding stocks, because of the payout ratio that we just mentioned, we also exclude top decile yielders. Essentially, all those stocks that if you just ranked them by yield, we get rid of the top yielding ones. Now I'm sure some of you are saying, that's a dividend strategy, why are you getting rid of the top yielding ones?

Well because there's so many yield traps in that top decile. Now an active manager who has, you know, numerous analysts at their disposal, they can do fundamental research, take a closer look at some of those stocks that perhaps DGRO excludes, that maybe they think are good investments. So we actually commonly talk to financial advisors and end investors who are using both DGRO and maybe a dividend active strategy that they like. DGRO's going to help you be more diversified, DGRO's got, as was mentioned, about 400 holdings. You're not going to see that many holdings in an actively managed dividend mutual fund.

But, they're going to be picking essentially stocks that they have their most faith in, high conviction in, and so consider pairing even some active strategies. The knock on active will be that though you're going to have higher costs, typically. DGRO has an eight basis point expense ratio. Active managers are going to charge more than that. Active mutual funds tend to kick out capital gain distributions. So if you're a taxable investor, that's something to be aware of. So there's just a couple of thoughts and observations around active and index with dividend investing.

Raymond: Okay great, thank you Sean. I think we got time for one more, and we probably got to be a little bit shorter on this answer, we only have about a minute to a minute and a half --

Murphy: Sure!

Raymond: -- to get through it. So, and I hear this a lot too, can you address why ETFs are said to have lower cost than, you know, traditional mutual funds? Because I do hear that from, a lot too.

Murphy: Yeah! So real couple of quick bullets on it. For starters, dividends -- index strategies tend to be lower turnover strategies. What does that mean? We're not trading as much, we're not buying this stock, selling that, but so on and so forth. So because there's not as much trading involved, that the costs tend to be lower to manage the fund. Now, we're also rules-based investing. We just talked about some of the rules DGRO has.

If stocks don't meet that criteria, they're excluded. A lot of active managers, they might have 20 or 30 research analysts on their team whose job is to look through fundamental research, they're analyzing annual reports, earnings, statements, listening to CEO calls, to try and find those stock. And all of that stuff, all that research, costs money. So those are just two of the primary reasons that you tend to see ETFs have a significantly lower sticker price, if you will, over many actively managed mutual funds.

Raymond: That's great, thank you Sean. And remember, news and research, Learning Center, investment products, and then ETFs. A lot of those questions get answered in there too, questions like differences between mutual funds and ETFs, tax efficiency, there's a lot of great talking points and articles around why ETFs can potentially be more tax efficient. That's in our Learning Center, too. Sean, I'm going to thank you for the presentation today, your insights, all the great information.

Murphy: My pleasure.

Raymond: Very helpful to see all that. I want to thank everyone for attending, the thousands of people that we had on our event today, we greatly appreciate your time.

One other thing I do want to point out is that my role as a regional brokerage consultant is throughout the country, so we do have regional brokerage consultants throughout the country that work with investors with you one on one. Even during the pandemic, since we can't meet with you in office, we do meet with you virtually, and we can go through at your pace, and go through the ETF topic in more detail, whether it's searching for funds with you, showing you where you can use the technology to compare, or any questions that you have. Again, thanks everyone for being a part of our presentation, we greatly appreciate that, and your business as a Fidelity client.

END OF AUDIO FILE

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