TRANSCRIPT

iShares: ETF strategies for common portfolio challenges

John Gagliardi: All right. Welcome, everyone. So, ETFs can help with many portfolio challenges. iShares and Fidelity professionals come together to discuss common concerns they'll hear from investors and offer specific ways ETFs can help, together will cover building a strong, low-cost, tax-efficient foundation for your portfolio, navigating the bond market using ETFs, and developing a diverse income strategy.

So, with that, I'd like to introduce our speaker from BlackRock. We have Sean Murphy with us. Sean is a member of iShares' Product Consulting team. He's responsible for researching, analyzing, and evaluating a broad range of investment solutions and delivering the insights of internal partners, as well as end clients like yourselves. Prior to joining BlackRock in 2014, Sean spent 12 years at Citi as Equity Sales Trader, especially in the execution of ETFs and international equity trades. So Sean'll be presenting for the next 35 minutes with us. So, let's take advantage of Sean's expertise. Welcome, Sean.

Sean Murphy: Thanks, John. And thank you, everyone, for joining us today. Let me just start by saying that I hope you and your families are all doing well, during this difficult and weird time. Twenty twenty has thrown a fair share of

curveballs at us. We've faced all sorts of challenges, that none of us really saw coming. These challenges have ranged from very serious to a bit more mundane. One challenge that I've been trying to address -- and, in my conversations with colleagues, it sounds like I'm not the only one -- is snacking. Now granted, this may have something to do with the fact that I've been working primarily, these days, from my kitchen, right in front of my pantry here. But I digress. More on that later.

The emergence of COVID-19 and the subsequent quarantine has also caused a great deal of financial hardship, from loss of income to losses in portfolios. And so, this presentation will focus on three investing challenges that many investors have had to face this year. We'll start by discussing what exchange-traded funds are and the benefits they offer investors. And then we'll take a closer look at three of the most common challenges we're hearing these days. The first, many investors have been surprised with the performance of their portfolios, and, unfortunately, not in a good way. So, we'll talk a bit about how to build a strong foundation, using some of our iShares ETFs. A second challenge many investors are facing is with individual bonds. In times of volatility, bond liquidity or the ability to sell out of a bond position tends to become a bit more difficult. The timing of this couldn't have been worse, for some. You need to sell a position to raise cash but you're having a hard time

doing so. Bond ETFs, however, rose to the occasion and can improve liquidity, as well as diversification, for individual bond buyers. Lastly, we're going to talk about income generation in a low-yield world. The yield on the 10-year US Treasury right now is not even one percent. Many income investors are looking for other ways to generate the income they need. And so, we'll take a closer look at three income-focused ETFs that can help.

But before we get into ETFs and how they can help, a quick refresher on the year in stocks, so far. We may forget, because it seems so long ago, at this point, but the stock market actually started out the year pretty well. The S&P 500, which consists of 500 of the largest stocks in the US, was actually up about 5 percent, through the first five, six weeks of the year. But as COVID-19 spread, markets around the world began to sell off, pretty aggressively. Many businesses shut down, which resulted in millions of jobs lost. And by late March, US equities were down about 30 percent. As the Fed and the government took action to address some of the implications, markets whipsawed up and down, up and down, for weeks. The chart on the left might look like an EKG taken during those days but it's actually showing -- is the one-day moves we saw in the S&P 500 during the first six months of the year. There were 15 days during that time that the market was down greater than 3 percent. Now, to put that into perspective, that happened only eight times in

the previous five years combined. But there were also 12 days during the first half of the year where the market was up 3 percent or more, something that happened only three times in the previous five years. Now although the first half of the year was definitely one that was very volatile, by the end of June US equities had actually rebounded pretty significantly. And the S&P 500 was only down 3 percent. But many equity investors didn't feel that sense of recovery. For many, they were experiencing -- and this is a technical term we use in the business -- FOMO, the fear of missing out. The chart on the right shows the breakdown of how the companies within the S&P 500 did, in relation to the index. Remember, the index was now only down about 3 percent, by the end of June. But 76 percent of those companies within the index were actually down more than 3 percent. In fact, they were down, on average, 23 percent, those 76 percent of companies. Some of you might wondering, "How is that possible? Isn't the index the average?" And, yes, the index is an average. But it's a market-cap-weighted index, meaning larger companies, like Apple and Microsoft, have a bigger input in the direction of the market.

As a result, many investors are seeking ways to improve diversification in an easy fashion. When building an investment portfolio, one always needs to understand what you own and have the ability to change as you see fit. Well,

ETFs can provide both. All of our ETFs provide a list of holdings, that are updated daily on our website. And because ETFs trade like a stock, you can gain access to dozens, even thousands of securities with just one purchase.

But before we take a closer look at some other key benefits of ETFs, just a quick refresher on what they actually are. So, 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 individual investors don't have. But unlike a mutual fund, you can buy or sell an ETF at any time during the trading day. The first ETF was launched in 1992. And now there's over 2,000 ETFs available to investors, providing exposure to all major asset classes. Those ETFs have, in aggregate, nearly $5 trillion in assets. Now, iShares, the firm that I work at, is the largest ETF provider, both by number of funds -- we have over 380 funds, these days -- and by assets as well.[1]

When we ask our customers what they liked about our products, we typically get many responses. But these are the three that are the most common. First, ETFs provide competitive performance. So, case in point... We talked a bit about the S&P 500 index. Well, we have an ETF that tracks that index. The ticker is IVV. But we also have eight other market-cap-weighted ETFs, that

track S&P indexes. They do this at a very low cost, a fraction of the cost of most alternatives. For example, the typical iShare-- ETF charges less than one-third that of a comparable mutual fund. And lastly, for taxable investors, ETFs are more tax efficient. One, tax investors often have to pay is capital gains tax. Now, this typically results from selling an investment at a price above what you paid for it. For taxable investors in a mutual fund, though, you may notice that you've had to pay capital gain taxes, even though you did not sell that fund. Now this is because many mutual funds make capital gain distributions. Now those are the result of the fund selling a security within the portfolio at a higher price than what the portfolio manager paid for it. Because of the way ETFs are structured, they are less likely of making capital gain distribution. And therefore, you are less likely of having to pay capital gain taxes on securities that you haven't sold yet. So case in point, looking over the past five years, where 54 percent of mutual funds on average have distributed a capital gain that could result, for a taxable investor, in paying capital gain taxes, only 6 percent of our iShares lineup has done so, on average.

ETFs provide access to potentially hundreds of securities, in one purchase, giving that much needed diversification. But ETFs provide an additional benefit, that mutual funds do not, and that is transparency. The overwhelming majority of ETFs track an index, which is a rules-based approach to investing.

Security that meet certain criteria will be included. Now the benefit of this is that you know what exposure you're getting. If you understand the rules, there's no surprises in terms of what's going to be in there. In fact, you can go to ishares.com, type in the ticker of any of our 382 ETFs and you'll find out, as of this morning, what security it owns. So, this is a sample of the transparency we provide. We're showing here our low-cost emerging market ETF. And the ticker on that is IEMG. You can easily see what countries you have exposure to, on the bottom left of this chart, what sectors, up on the right. And even, if you wanted to, you can drill down into specific stocks, as you see in the bottom right portion of this slide.

So now that we've covered ETFs, let's go back to some of those challenges. Every investor is different. And the challenges we all face are different. There's no one-size-fits-all, when it comes to investing. It's sort of like pistachios, which are definitely one of my go-to snacks, as of late. But some are easy to crack, while others can be a bit more challenging. Some might require a bit more elbow grease or even a little bit of assistance through a tool. And ETFs are like Swiss Army knives, in that sense. They do more than investors may think. The first challenge we'll discuss is how to build a portfolio to be more resilient in the long term. The key is constructing a portfolio with a strong foundation. And the natural question then is what does a strong

foundation look like? In a word, diversified. Expand beyond just US stocks and think about adding international equities, as well. And don't forget about bonds too. Just because bond yields are low doesn't mean they can't help in your portfolio. Speaking of yield, for those looking to generate income, this is one of the most difficult environments in history. As I was reminded before we jumped on here, this is going to be my fifth Fidelity presentation and I feel like I've said that line every time, how challenging the interest rate environment and the income environment is. It just seems to keep getting harder. So, we'll take a closer look at a few iShares ETFs, to help those that are trying to seek higher levels of income.

So, let's start by talking about the importance of building a strong foundation. A portfolio with a strong foundation can be more resilient to shocks or downturns. Let's face it. We're all humans. It doesn't feel good to perform worse than others. And this is true for investing, as it is really for anything in life. But when it comes to investing, the desire to avoid finishing in the bottom can often lead to decisions that can be detrimental to long-term returns. One decision we all either do or at least are tempted to do is to time the market, buy stocks if we think the market is going to go up, sell stocks if we think they're going to go down. The problem with this is timing markets is difficult. And study after study has shown that market timing often fails. Not only is it

hard but the consequences of being wrong are bigger than you think. Even missing a handful of days invested can have a dramatic impact on your financial well-being. So, for example, if an individual invested $100,000 in an S&P 500 fund in 2000 and stayed invested, that portfolio would be worth about $324,000 at the end of last year, the end of 2019. There's about 5,000 trading days that elapsed during that time. But if you missed the 5 best days or 0.1 percent of the time, your investment value at the end of that 20 years dropped by over $100,000. If you missed the top 10 days, you would have made only $60,000 on that initial $100,000 investment. And if you missed the best 25 days, well, you actually lost money. And the interesting thing is, many of those days didn't take place when everything was going along well but rather during periods of severe market stress. Those top 5 days that are referenced in the second bar, they all took place during the financial crisis, in '08 and '09. Keep in mind this chart is through 2019. There are now three new entrants, at least, into the top 10. And they all took place this year, in the first quarter.

Having a diversified portfolio can help you stay invested. But diversification means more than just not putting all your eggs in one basket. It means getting more than just eggs. Here we have a chart... Now, some call this a quilt chart. And others call it a Skittle chart, which is the name I prefer, because, as I

mentioned earlier, I like to snack. And Halloween candy is now prominently featured in the pantry behind me. In either case, what we see here is the performance of broad asset classes by calendar year. The past 10 years have been great for large-cap US stock, which are represented by the pink box. But what you'll notice is they're not always at the top. For example, emerging-markets stocks had two great years, in blue. Small-cap US stocks, in gray, had two great years, as well. Even bonds, represented by the white box, had two great years. Bonds are a great source of diversification for equity investors. Because oftentimes, when stocks zig, bonds, and specifically investment-grade bonds -- they tend to zag. So, the question is what does it look like, if you own them all? Well, the yellow box here represents a portfolio that is 60 percent stocks and a 40 percent bond. Now although that portfolio was never at the very top, the worst year it had was down just shy of 6 percent. An investor may be less likely to make a rash decision, like selling everything and going to cash, when it doesn't seem like the sky is falling. In a way -- yes, I'm going to go for two snack preferences on one slide -- a 60/40 portfolio is sort of like those party mix tubs you buy at Costco. They've got nachos, potato chips, pretzels, Cheez Doodles in there, you name it. They're great for parties, because, in most instances, if a guest comes across it, there's something in there for them. Portfolios should be constructed in a similar fashion. If the economy's booming, well, then your stocks are going to do well. But if the economy isn't

doing well, then bonds tend to do well. The point is that we don't know what's around the corner, right? That's a lesson we all learned the hard way this year. So, building a strong, diversified foundation can help investors weather any potential storms.

So, then the next natural question is, then how? How should I get exposure to other segments of the market, since there are so many options to choose from? What this chart shows is the risk and return over a 10-year period, for funds in different categories. And what the research has shown is that returns of funds in different categories, over the long term, tend to cluster by asset classes. So, the different colors here are representing funds that are invested in one particular asset class. In other words, the decision to invest in emerging markets, for example, which is represented by the pink box here, is more important than which found you choose. So, if that's the case, focus on cost and focus on broad exposure.

Building a strong foundation can help you stay invested. A strong foundation is one that's well diversified across individual security and asset classes. And our iShares core lineup make it not only easy to build a strong foundation but they're not going to break the bank either, as our products are some of the

lowest cost in the industry. So, let's examine some of those core building blocks.

And we'll start with US equities. For large-cap US equities, we have our S&P 500 index ETF. And the ticker is IVV. That fund is designed to provide the same return as the S&P 500 index, minus our fee, which is 0.03 percent per year. That's three cents per year for every $100 invested. We also have our mid-cap and small-cap ETF, IJH and IJR, which are the largest ETFs in their respective categories. Our broadest US equity product, though, is ITOT, which tracks the S&P Total Market Index. It's designed to be as broad as possible. It owns over 3,500 publicly traded US companies. In fact, there's no US equity ETF with more holdings than ITOT. On the international side, we have IEFA, which is going to provide exposure to international developed market, like France and Japan. IEMG is our emerging-market version. And that's going to provide exposure to emerging economy, like China and Brazil. And for bonds, we have our AGG, the largest bond ETF available. It provides exposure to investment-grade bonds, issued by the US Treasury, by US corporations, but also from US agencies like Fannie Mae, which is involved in the mortgage space. IUSB includes all of those bonds, as well, but it's also going to own some high-yield bond, some non-investment-grade bonds, bonds that are issued by lower-credit quality issuers. You can use these products as

ingredients to construct a diversified, low-cost foundation. But we also have funds that will provide exposure to all of those funds -- all of those exposures, I should say, based on your risk tolerance. And these are our allocation funds. AOR, for example, tracks that 60/40 index that we referenced on the earlier slide. But if 60 percent equities is just a little too much for you, we have two more conservative portfolios, AOK or AOM, which will own more bonds than equity. On the flipside, if you want even more equity than 60 percent, we have our aggressive fund, AOA, which will own about 80 percent equity.

John Gagliardi: So, Sean, I'm just going to jump in here and chat a little bit. So, looking at some of these names, I get these kinds of questions all the time, about how to really build a portfolio for this stuff. And I think, in the prior session, we talked about IVV. And really, I can't talk enough about this. Because so many clients say, "Hey, John, what do I do? Most money managers can't seem to beat the S&P for long periods of time." And my answer to them is, "If you can't beat 'em, join 'em." The easiest thing in the world, to get a diversified large-cap portfolio. It fills that void. And then another very common question I will get, that leads me to HDV, is, "John, I'd like to build a portfolio of dividend-paying stocks." And I'll take clients through the painstaking process of searching for dividend payers. And what I find, 99 times out of 100, clients jump into yield traps. They find stocks that, the

dividend looks great but the company's ability to pay... Are they underwater in debt? Are they 90 percent debt and only 10 percent left in equity? How many problems are there, once you start looking under the hood, which is something we said earlier quite a bit? And once you start to peel away some of those names, you realize, "Hey, I really can't do this alone." And there's nothing wrong with using one of those core dividend portfolios. And it's the S&P, taking out all the names that don't pay dividend. So, yes, you will have Apple, you will have Microsoft. But you won't have names like Google or Facebook, that don't pay dividends. And what you wind up getting is a much stronger overall dividend. But you're giving up some of that growth factor, for some of the younger companies, that haven't issued any dividends yet. So, this is a great, kind of, overview of some of those names. And, of course, the go-to for bonds, the Aggregate Bond Index. If you're putting together your own bond portfolio, that's your benchmark. Because that's the entire aggregate bond index. How does your bond portfolio look, compared to it? How diversified are you?

Sean Murphy: Yeah. Thanks, John. Those are some great insights. You know, the one thing you'll learn, as we go into the third part of the presentation, is that ETFs do more than a lot of people think. We implement different criteria for stock eligibility. We're trying to find some of those stocks that we can expect

to continue to perform the way that we anticipate them. So, very true points and ones we're going to take a look at in a bit. You mentioned as Agg as being, really, a benchmark for many bond investors. And bond investing has just definitely been a challenge for many this year, as well. It's been an interesting year. Right? The bond market has historically been a safe-haven asset class so when times get tough, often, when equities zig, bonds zag. And that's why bond allocations in any portfolio make sense. Case in point, during the first quarter. When the S&P 500 was down about 20 percent on the year, the Barclays Aggregate Bond Index was actually up 3 percent. Even with all the challenges of the first quarter, bond ETFs performed as we expected. And as a result, many doubters have been turned into believers.

Bond ETFs are really no different than equity ETFs. They also provide competitive performance. Case in point, our bond ETFs outperformed more than half of the competition, over the trailing five-year period. They have also done this at a fraction of the cost of your typical bond mutual fund. But the real feather in the cap of the bond ETF is liquidity. Unlike many stocks, bonds often trade infrequently, even bonds issued by biggest companies in America. But ETFs don't trade like bonds. They trade like stocks. So, although some bonds might not trade at all, on a given day, bond ETFs, that hold bonds, might trade thousands of times per day.

Now although the Aggregate Bond Index has performed well, so far this year, it's really set up future investors with a bit of a challenge. In order to address the economic challenges our country faced and continues to face, as a result of COVID-19, the US Fed lowered interest rates dramatically. So, what does that mean? Well, at the end of last year, the yield of the Aggregate Bond Index was about 2.3 percent. But as of June, it was down to 1.25. Many people invest in bonds for income. And there just isn't much of it. And that 1.25 percent is before fees. So, the average intermediate core bond fund, which is a category that's often benchmarked to the aggregate index -- the average fund charges 66 basis points or 0.66 percent. So, if you do the math, that leaves investors in the average fund with even less income. And those investors are noticing. And more of them are using low-cost ETFs, like some of the funds you see here, AGG, for example. Where the average intermediate core bond fund charges 66 basis points, AGG charges 4, 0.04 percent. We mentioned IUSB before. It includes all the bonds that you see in AGG but also some higher-yielding segments of the bond market. And again, significant expense-ratio savings, when compared to other funds in its peer group. And lastly and for those who need higher levels of income, you have HYG, which provides exposure to high-yield bonds, less-credit-quality issuers, at a cost that is half of its peer group.

The sticker price of the funds or the expense ratio of a fund, though, is not the only cost bond investors should consider. These days, there's also trading cost. And when I say trading cost, I'm not talking about commission but instead the difference between prices sellers are willing to sell and buyers are willing to pay. This is what is referred to as the bid/offer spread. Now the wider the difference, the more that can impact returns, when you go to sell. For individual bonds, the difference between the bid price and the offer price can be sizable. So, for example, as you see on the left-hand side of this chart, the average spread for bonds in the aggregate index was 0.21 percent or 21 basis points. But the bid/offer spread for AGG, which, although it owns bonds, trades like a stock -- the trading cost spread was 1 basis point or 0.01 percent. Another one worth noting here, MUB. So, for our tax-conscious viewers out there, MUB tracks an index consisting of all investment-grade municipal bonds. Again, we're dealing with a low-yield environment, a low-yielding asset class with municipals. And the bid/offer spread there on the underlying bonds is about 15 basis points, compared to MUB, which, again, holds all those bonds -- had a much tighter trading spread, of only 2 basis points.

Bond ETFs offer efficient bond exposure. They provide access to thousands of individual bond issues, with just one purchase. We've already talked a lot

about AGG, owning Treasuries, owning investment-grade corporate bonds, as well as mortgage-backed securities, issued by the likes of Fannie Mae. It has over 8,000 individual holdings, in that particular fund. USIG is going to provide exposure to just the corporate issuers that are investment grade, has over 7,000 holdings. USHY is also a corporate bond ETF. But it's going to be holding some of those non-investment-grade, high-yield bonds. And lastly, MUB, providing exposure to over 4,000 municipal bonds. In fact, if you want to go to ishares.com, bring up MUB, there's a good chance that we own a bond in that fund issued by your town or city. All of these ETFs make monthly distribution, which is unlike individual bonds, which are often paying maybe just twice a year.

John Gagliardi: Hey, Sean, I want to jump in here. So --

Sean Murphy: Please do.

John Gagliardi: -- MUB. Let's talk about the MUB. So as a joke... I wish everyone was on Zoom, so I could see everyone's hands go up.

Sean Murphy: (laughs)

John Gagliardi: How many people think taxes are going up? Raise your hands. I don't care who wins what. When you take out $6 trillion in debt, there's only one way to pay for it. You got to pay for it. So, when that happens and taxes inevitably go up, the interesting thing about MUB, it's one of the only ways to get tax-free income -- are municipal bonds. And municipal bonds, of course, with MUB, you would be tax-free nationally. I'd looked it up. I think there's -- I want to say this right -- 4,300-some-odd bonds in MUB. So, this thing is super diversified, across every municipality throughout the country. And then, on top of that, it's fairly low-cost. And there's actually one other one out there, for my New York fans. I'm a New Jersey guy but a former New Yorker. NYF is another interesting one. Because that one's both New York tax-free, as well as fed tax-free. So, you do have some options out there. If you're concerned about rising tax rates, there is a shelter here for you. But I'll let you take it away, Sean. I just had to jump in there, because I'm a big fan.

Sean Murphy: No, glad to hear it, John. And thank you for that. John mentioned we do have a New York municipal bond ETF. And for those wondering, unfortunately, we don't have a bond ETF for every state. We need a lot of issues from individual states, to do that. So, you know, fingers crossed. In the years ahead, maybe we'll have a muni bond ETF for just the state that you're residing in.

John Gagliardi: Well, we don't have New Jersey bonds, but we do have --

Sean Murphy: No, we do--

John Gagliardi: -- pistachio nuts, though. I'm eating pistachio --

Sean Murphy: (laughs) So that brings us to our third challenge. And as we just discussed, bonds are not generating as much yield as they once did for investors. And this has created a dilemma for many who need their portfolios to generate income. Many investors are looking now to equity, to help bridge that gap. Now bonds have historically been the default option for income. But equity can also address this need. For US equity investors, income has actually made up a good part of your return. The compounding effect of dividends has explained a meaningful portion of the S&P 500 performance over the last 30 years.

In fact, for a balanced portfolio, that is, again, 60 percent stocks, 40 percent bonds, 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 last decade. The pink area represents the portion of the income received

from that 60/40 that is coming from the equity portion. Fixed income is just not paying as much income as it used to. But equity income has actually been steady, if not increasing, over the last five years.

And one fund that's trying to pick up on this trend is our ETF DGRO or "D-grow." It also tracks an index -- a rules-based approach. And the stocks in that index have a few things in common. They must have a five-year track record of growing their dividends. And they're also screened to find stock that have the best chance of continuing to grow their dividend, by examining certain company characteristics. Although it's focused on dividend growers and not high-dividend payers, the yield of the ETF is still higher than that of the S&P 500. It has over 400 holdings now and is obviously casting a very wide net within US equities.

But if that yield doesn't cut it, if you need a little bit more, then we do have HDV, which is the product John mentioned earlier. HDV focuses on high-dividend payers. Now no one has a Magic 8 Ball. And John mentioned the notion of yield traps. Stock yields look really good, if a price is falling down, right? That dividend suddenly looks a little bit more interesting, when the stock's price is going in the wrong direction. But what we *can* do is we can examine the business model of companies, to try and get a sense whether that

high dividend that they're paying is sustainable. And again, this is an indexed product. This isn't human beings picking and choosing. This is rules-based investing. The index provider is looking for companies with economic moats. How insulated is the company's earnings and therefore the dividend, from the competition? So, for example, just going to highlight one holding here, is Coca-Cola. Coca-Cola is, obviously, a very well-known brand. Other companies, though, create soda that tastes pretty similar. But they can't replicate the intangible asset that Coca-Cola has, that helps them fend off the competition. And that's their brand. Their brand is why US consumers so often will pay more for Coca-Cola than the store brand that's right next to it on the shelf for a lower price. The resulting portfolio consists of 75 companies, high-quality US company, many companies of which you will almost certainly recognize, if you were to look through the holdings.

I mentioned earlier how important it is to stay diversified, not just at the security level but across asset classes. And for some investors, we have a fund that tries to do just that. The ticker is IYLD. And it tracks a multi-asset index, that consists of other iShares ETFs. This is what is referred to as a fund of fund. Now, the portfolio is usually 20 percent equities, 60 percent fixed income, or bonds, and then 20 percent what are deemed are alternatives, which are essentially mortgage REITs or other types of REITs, as well as preferred stocks.

You'll notice, if you look through the holdings on the bottom right here, that there are some high-yielding but definitely, as a standalone, funds that might be deemed risky, like HYG, our high-yield bond ETF, or REM, our mortgage REIT ETF. But you'll also notice that we have two large positions, the second and third holdings, in US Treasury ETFs. And again, the reason that we hold Treasury ETFs, high-quality issuer, from the US Treasury, is that, when the markets zig, when the riskier parts of the market tend to zig, Treasuries tend to zag, providing that diversification we all need, when potential storms arise.

So, to recap, 2020 has been a challenging year, in way, way more ways than one. For investors, this is true as well. The volatility we've seen this year has exposed many portfolio weaknesses, whether it's a lack of diversification, whether it's liquidity, whether it's trying to find more income. I mentioned in the beginning that one challenge I've been dealing with is snacking. And I bring this up now, because I wanted to show you all a sign that my wife put on the pantry behind me. But I took it off, because I didn't want a distraction. But I can hold it here. It's says, "Stop. Are you really hungry? If not, turn around and walk away." Now, notice what it doesn't say. It doesn't say, "Don't snack." In the same way, we are not suggesting to anyone that you should not buy at all any individual stocks or individual bonds but merely to recognize the risks that doing so can come with. ETFs can help address those risks. They

can provide instant diversification, with exposure to, in some instances, thousands of securities, with one purchase. They do this at a fraction of the cost of mutual funds and in a more tax-efficient structure. Because all of the ETFs we discussed track indexes, you can easily see what you own and what you don't and therefore what risks you have. Thank you all for your time. I hope you all stay safe. And with that, I'm going to turn the presentation back over to John.

John Gagliardi: All right! So, I'm sharing my screen again. And I've gone through about a hundred pistachio nuts here and I'm still not satisfied. (laughs) So thank you --

Sean Murphy: Sorry I planted that seed.

John Gagliardi: -- for that, Sean. (laughter) So. In talking about this today, we've got a lot of great questions. I figure we'll volley some of the questions back and forth. And that's how I could use it throughout the demo. But the first question I got are, "Are dividends treated just like stock dividends?" And the answer is yes. Now the next question, I'll send over to you, Sean. The next question was, "What's the difference between the net asset value of an ETF and the current market price?"

Sean Murphy: Great question! So, in many instances, there shouldn't be much difference. The net asset value is the price that we post once a day, at the end of the day. And we basically look at all of the holdings within the ETF and we look at the closing price of all those holdings. So, we're only going to publish the NAV of the fund once per day. Now, the market price can move, obviously, throughout the course of the day, reflecting real-world changes, real-world news. Perhaps some sort of tweak came out, perhaps some news around trade negotiations. So, your market price is oftentimes more reflective of the current conditions that we see in the marketplace, rather than the NAV. So, you start out the day. The NAV of IVV, our S&P 500 fund, is really based on yesterday closing information. But if there's positive news out, the market price is going to reflect that, whereas the NAV is going to be based on yesterday's close.

John Gagliardi: Great point. All right. So, you might be wondering how did I get to that other page. So, I'm going to take you to this live. We go to Investment Products. I come down here to ETFs -- on fidelity.com. I'm going to gently scroll down here. And you'll notice we have an entire area here dedicated to our friends at iShares. Because they are the largest issuer of ETFs, and some of the most efficient ETFs out there. So, we talked a lot about these themes today. And you'll notice... What are some ways to generate potential income?

And this is a lot of the things that we touched on today, including AGG, for the Aggregate Bond Index, and DGRO. So DGRO, you may have recalled that... There was two that we mentioned, HDV, which tracks the dividend payers in the S&P 500... So those are the fac-- got to be in the S&P, it's got to pay a dividend. So, you don't get all the names. You get the ones that pay the dividends. So, you're getting a higher net dividend. Now DGRO, different story. For this, we actually have a different factor. We're looking for something that maintains or grows a dividend. So, if we scroll down here a bit, you can see... One of the things in the very beginning of Sean's presentation was performance. And you can see, looking across the board here, this thing has performed, compared to its other, similar setups on other ETFs, that are looking for those same dividend growers or dividend and buybacks. There's different themes here. But this looks like the one that's gotten the best 52-week performance. Also, it's a monster in net assets. And that goes to some of the backbone of having the right brand, iShares. And lastly, if we look to the left, if we look at the top 10 ten names, there's a lot of familiar names here. And the key is they have the sustainability. Yeah, it's great when clients say, "John, look at this stock. It's paying a 10 percent dividend." And then we look at the chart and the chart's a disaster! You have to have both. You can't give up all your growth, just for the sake of dividend. You need a balance. And you don't want to fall into a yield trap. Because that yield could get cut any time.

And if it does, it'll get removed from DGRO. So, you're getting the risk management. And let's face it. You're really not paying much for it. When we scroll up here... It's 0.08 percent. So, to translate, that's $80 per $100,000, or, as Sean liked to put it -- what was it? -- eight cents per 100. (laughs)

Sean Murphy: For every 100. Yeah.

John Gagliardi: It sounds ridiculous! But it's true. So, the management fee is really a nonevent. Right? We're really not worried about 0.08 percent, to get the diversification and that management factor. If any of these guys cut their dividend... There's 423 names. You cut my dividend; I want to see 422. And that's what the portfolio does. So, let's go back to our questions here. Because I know we had a lot of stuff lined up, we don't have a lot of time. So. "Is there any downside to purchasing an ETF?" Yes. Sean, you want to talk a bit about that?

Sean Murphy: Yeah. So, keep in mind that an ETF is designed to provide you the exposure that we say on the label, right? So, we talked about IVV, our S&P 500 product, incredibly diversified, tracks the inde-- but that index really represents the asset class. So, when the asset class does badly, the ETF is

going to be doing essentially the same thing. It's going to mirror the exposure that our investors are paying for.

John Gagliardi: All right. Unfortunately, we're not going to be able to get to everyone's question. And remember, you could risk-manage your ETFs the same way you risk-manage an individual stock. And with that... I think that we probably have my slide up. So, we could talk a bit about how do we connect? What do we do from here? And myself -- my name is John Gagliardi -- as your Regional Brokerage Consultant for New York and New Jersey, if you go to fidelity.com and search my name, you'll get to this page. And this page will allow you to connect with me. And you could even schedule, I think, a half-hour call, on the bottom of the page. Now don't everyone go calling me. This is specific for my New York/New Jersey folks. Because that's the region I cover. But if you're anywhere else in the country, there is a Regional Brokerage Consultant near you. You'll be able to connect to them.

END OF AUDIO FILE

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[1] *Source: BlackRock ETP Global Landscape Report 9/30/2018. Based on number of ETFs, AUM, and market share*.

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