TRANSCRIPT

iShares: Index ETFs for everyone

John Gagliardi: Welcome everyone to “Index ETFS for everyone.” My name is John Gagliardi, I’ll be your host. And today, we’re going to be talking about index ETFs for everyone. Now many investors have turned to ETFs like the S&P 500 Index to navigate market opportunities. But not all ETFs are created equal. What do you need to know? How do you know how to choose which ones are right for your portfolio? We’re very lucky today that we have a special guest, iShares head of product consulting will uncover why ETFs are so popular, how have some stood the test of time, and the difference between some of the most well-known ETFs out there.

So, with that, I’d like to introduce our first speaker, Dan -- Danny Prince, from iShares. Daniel Prince is head of iShares product consulting for Blackrock. He joined Blackrock, specifically iShares, over 13 years ago, and has been focused on the ETF product management, and education with investors like yourselves. As a California native who went to UC Berkeley, Daniel started his career as a consultant, working with pension plans. He’s a proud dad of two young kids, four and two, which have been keeping him very busy lately with work and school from home. So welcome, Danny.

Daniel Prince: Great, thanks John. And yes, this environment in 2020 has been interesting with a two and a four-year-old at home. But thanks for the introduction, and hello everyone. I was thinking about how to kick off this webinar, and have been watching playoff basketball, and playoff baseball in October, which is weird, by the way. And was thinking about all these teams, and how each year, they innovate to get better. And at the end of the day, the most successful teams are trying to innovate and adapt.

But they still have to execute against the fundamentals of the game to win. And that's what we wanted to discuss today during this session is sort of get back to the fundamentals here, and remind ourselves that you know, despite all the volatility and uncertainty we see in the market, and despite all the noise that we hear on a daily basis, building a long-term plan and sticking with it is a tried and true strategy. So, over the last two decades, indexing has really risen to feature prominently at the heart of portfolios, and we wanted to take this opportunity to really put that in context. So, this is our presentation around indexing for everyone.

And a little disclaimer here, despite my wish for you to think that I'm cool, and can skateboard, I have to admit, that picture here is not me. However, it does

not change the fact that this will be a cool presentation. So, let's jump into the agenda here.

Over the next 30 minutes or so, we wanted to walk through really three concepts. First, we wanted to talk about sound portfolio principles, and how diversification can help. And I'll frontline my punchline here to the section, but it's all about how to avoid losing in a winning market. Second, we wanted to talk about why indexing makes sense. And you know, we've seen the rise of ETFs and index strategies over the last 20 years, and in a very pronounced way, I might add. So, let's make sense of some of that growth. And then third, let's talk about how to select an ETF. Today, there are over 2,000 ETFs that trade on the exchange, and so with so much choice, how does one really go about selecting an ETF if you're in your seat? So, it's critical to have a due diligence process. And you know, even if you're leaving that to the experts, so working with regional brokerage consultants at Fidelity, you know, those folks have a due diligence process as well. So, you know, we'll walk through some of those key considerations. So, with that, let's jump in.

So first, let's talk about diversification. If you took a finance course in college, you might remember the importance of diversification. And if you didn't, uh, but you happen to be on a webinar with Fidelity, you might hear someone talk

about how important diversification is. You know, we always say that it's the one free lunch in finance. So, what exactly does that mean when it comes to investing? And you know, if, if you're going to put out your capital to try and earn a return, you're going to have to take on some risk. And there's the ability to diversify some of that risk away by holding a basket of stocks, versus just a few, or even a handful, of stocks. And it helps you be intentional about the risk you take. In other words, diversification can remove the risk you don't need to take to earn a certain return. And I'll show you some interesting stats on that in a minute around the entire U.S. market, and how diversification has helped prevent being a loser in this winning market.

So, let's dive into an example of what I mean about diversifying. Now if we can go back in time say 20 years ago, to the peak of the dotcom bubble. And this is at the end of the '90s, the internet was going mainstream. And it was very clear to see how the world was changing. Ecommerce was becoming more important; investors were taking notice. So, let's say you identified that trend. How do you invest in this, what became a general -- generational shift in consumer buying behavior? Well, on the chart here, you can see two ecommerce companies you could have potentially invested in. In fact, one of these was the first stock that I bought, and that's a true story. And over the course of the next six months, stock A was up 213 percent, and stock B was up

22 percent. Now based on what you see here, many investors would have bought stock A. It was doing better. Well not to give away the punchline here, but one of these was an online retailer of toys, and the other one sold books.

So, let's fast forward to today with perfect hindsight. From 1999 through today, stock B, this is Amazon, has delivered significant returns, turning even a small investment into a nice respectable sum, I'd say. The other company we looked at, stock A, was eToys. eToys went bankrupt, and it went to zero. And the point here is that the dynamic of the rise of Amazon over the last two decades wasn't so obvious back then. Even with the combined wisdom of the market, people didn't know that at the time, that Amazon would become so ingrained into almost everything we buy today.

So, here's the key message on this. Even though ecommerce trend was easy to spot, picking the winner in advance via single stocks really created an additional level of risk, where your thesis might have been 100 percent correct, but your implementation might have sent you astray. And if you're super curious, eToys was my first stock I bought. And notably, the last stock I owned that went bankrupt. So, I guess I would say lesson learned, right?

So, let’s zoom out and think about this concept of diversification at the entire stock market level. I think most people on this call would subscribe to the idea that the stock market generally goes up over time. Sure, there are bouts of negative performance, but for decades the pattern’s been clear. And the last five years have been no different. The U.S. stock market has been up over 10 percent for each of the last five years. And this is higher than the long-term growth average, so a pretty nice return. But did you know that over half the stocks in the U.S. market have lost value over the last five years? So, if you built a portfolio by buying a few individual stocks, you no longer get that air cover of the idea that you’re in the market, and that market’s generally go up over time. You get more exposed to single stock risk.

So, think about that. If you bought individual stocks over the last five years, there was a coinflip chance that you actually lost money. And if your goal was to invest in the stock market to take advantage of getting higher returns than say cash, or bonds, well that may not have happened. And this is what we mean by diversifying as to not be a loser in a winning market.

And on this chart here, you can see on the right-hand side, the percentage of mutual funds and ETFs that were up over that time period. So over 90 percent of equity mutual funds, and over 96 percent of ETFs were up. Investors were

rewarded. So, you have to think about what investing means to you. Are you comfortable taking the risk of a single stock, where you could lose, and lose big in some cases? Or perhaps win, and win big in some cases? Or are you trying to build a portfolio that manages those risks? Certainly, can cap some of the upside potential, but really limits the downside as well.

I talk with a lot of investors, and they'll ask me, you know, do I have any hot stocks to recommend? And quite frankly, hot ideas, to me, are about winning over the long-term. And really managing the risks and the unknowns to the best that, that -- to the best extent possible. So, everything is so obvious in hindsight, right? I mean I should have known, 20 years ago, that it was that book retailer that would win over the long-term in ecommerce, and not the toy retailer. You know, too bad my future self didn't hop in a DeLorean, travel back through time, and give me that tip 20 years ago through maybe an almanac.

So, let's talk about indexing, and how to start building a portfolio with intention. And you know, an easy way to do this is through an ETF. So first, let's take a step back. What's an ETF? Well, an ETF, or an exchange traded fund, is really a, a diversified fund that's professionally managed, just like a mutual fund. But it's also like a stock in that it trades throughout the day, so

you know the price in advance, and it's also very transparent like a stock. Notably though, most ETFs today follow an index. So, unlike most mutual funds, which are generally actively managed, which seek to outperform a benchmark or an index, most ETFs seek to track an index. Which again, is more transparent, such that you know what you own, and the ETF generally does what it says on the label.

And as we move into this next slide, you can see how indexing and ETFs does not mean just one thing. It's not just the U.S. market. It certainly can be, but it can mean so many different things across different asset classes, and across different strategies. For example, you can invest in a diversified fund covering the U.S. stock market, you can effectively own the whole market in one ticker. You also have bond ETFs, so investing in potentially more low-risk bonds through a fund like AGG, or even seeking out higher income, at a higher risk level though, through USHY high-yield bonds, or emerging market bonds in EMB.

ETFs allow you to case a global net fairly easily, through international strategies, or even single country ETFs. So, there are even ETFs that invest in more sustainable companies, so socially responsible, low carbon companies,

and even clean energy. And you even have areas like innovation of robotics, self-driving cars, or some of the more innovative parts of the healthcare sector.

So really going back to the title here, there are index ETFs for everyone. And they really offer that benefit of precise exposure with the benefits of diversification. And you know, John, not to put you on the spot here, but you know, we talked early-- before this call about diversification, and you talked about your interaction with clients. I was just wondering if you could share some thoughts on how you talk about diversification with clients.

John Gagliardi: Absolutely. I have clients calling all the time, and you could see that they're stressed trying to figure this out, like it's a puzzle, and they feel like they have to look at stocks. And we always talk about the, the simple factors of if so many fund managers, active fund managers, can't beat the S&P, you could simply own the S&P. It doesn't have to be complicated; it could be excruciatingly simple. And from there, if you're looking at themes or you have an idea, kind of like what you said, not all stocks might make money, but the idea might be a great idea. Whether it's clean energy, sustainability, robotics. So you could take advantage of those, still have diversification, and you might be right on the theme, just be very, very much more careful if you're looking at

the individual stock, because you could see that's a much more hazardous space to be playing in.

Daniel Prince: Yeah, that's right. I mean you know, if you have a view, you want to implement it with the least amount of risk possible. So, appreciate the color there John. So, you know, let's move this presentation into the next section. And you know, let's talk about why index ETFs. Because we talked a lot about diversification, and I think, you know, index ETFs really capture that in a very efficient way.

And if you think about some of the key benefits of indexing through ETFs, you know, I think we've made the case that indexing has made it really easy to get diversification. You know, it allows you to get the exposure that you want while minimizing the risks you were looking to control for. So, for me, it puts control back in the investors' hands. And if you wanted to invest in high growth potential companies, you could do that by buying individual names, but you would get additional risk. So why not diversify away that with an ETF? It's like my father. He was buying a lot of dividend-paying stocks for the yield. And I asked him, you know, why are you buying those stocks? We looked at his portfolio, and we went through it, and I asked him, you know, why these tickers? And he said, they had a nice yield. I asked him, you know, are you

looking for income? Or do you want the exposure of those stocks? And he said, income. So, you know, we started buying ETFs where there was a focus on income, so we can really reduce his exposure to any one company, yet we could still maintain his intention of trying to find income in his portfolio. So, you know, diversifying away what you're not looking for essentially is what I told him.

So, diversification, you know, one of the key tenets of investors choosing ETFs. The other is low cost. Because you know, indexing is more scalable, ETFs are generally known for low cost. And when you reduce fees, that really increases your performance. A dollar not spent on fees is a dollar left in the count. It's pretty mathematical, right? And it's not just fees that are cost. It's really taxes as well. Because indexing tends to be a lower turnover strategy, and because of the efficient structure of ETFs, ETFs generally minimize capital gain distributions at year-end, and this can help a taxable investor really keep more of what they earned after taking taxes into account.

So, you know, look, ETFs can help build a strong foundation, they can get you a solid portfolio, right? This is the sort of, my analogy of the fundamentals of the sports game, right? Can't win without executing against your fundamentals. So look, maybe you've been waiting to get into the market, you

know, perhaps you've been on the sidelines, well you know, through ETFs, you can effortlessly really invest, and get the benefits of easy diversification, low cost, and really minimizing taxable events.

So, let's move to the next slide here, and you know, what I want to talk about here is market cap weighted indexes. So, within ETFs and indexing, there's a strategy called market cap weighted indexes. Simply put, market cap weighted, or we like to call them core indexes, represent the market. Okay? So, our U.S. large cap core ETF simply represents the market of all available large cap U.S. companies. A good example of this, John mentioned the S&P 500. Okay? And what makes this strategy so interesting is really its simplicity. The market cap weighted index represents the aggregate holdings of all investors.

So today, you hear a lot about how Apple, and Microsoft, and Amazon, are such a large part of the S&P 500. And what that's really code for is that these companies are just a large part of the market. Right? They have very sizeable earnings, they have very strong cashflows, they're just a large part of the overall market. And for any portfolio that is underweight one of these stocks, there is an equal amount of portfolios that are also overweight the stocks. Okay? So, this, you know, thinking about market cap weighted indexes is

really market equilibrium. And the idea here is that investing in a core ETF means you're taking a viewpoint that you accept market returns, and that market returns can be quite competitive over time. So perhaps this is an efficient way to invest. Okay? And you know, we talked about low cost. But I always think about cost as hurdles to earning a return. Now, I'm not the tallest guy in the world, and quite frankly, you wouldn't know that, because this is a virtual call, and I'm sitting. But if I was in the 100-meter race, and it was with hurdles, if my hurdles were lower than my peers, I'd be in a much better place to win that race. Okay? And here on the chart, you can see just how much lower the fees are with ETFs, index ETFs. Just a slight fraction of fees, when comparing against category average. So, you know, for something like $10,000, you can invest in the S&P 500 for just $3 on an annual basis. So, fees are pretty low.

And really, it's not just fees though. You know, we also mentioned taxes. ETFs are known for being tax efficient, and this is really through minimizing capital gain distributions. And if you look over the last 15 years, the average annual capital gain distribution from funds, traditional funds, has been around 4 percent per year. So, if you're taxable, some percentage of that 4 percent gets paid through taxes as well as income distributions. And over the same time period, the average tax cost, so think about the drag or the reduction of your

return due to taxes, of an investment, has been greater than the average fee. So, while many investors are really focused on expense ratio, it's actually the taxes that have been a bigger cost to a portfolio. And this is the situation of the proverbial iceberg. You know, the majority of an iceberg is below the surface, sort of that hidden cost, if you will. And I think this is that cost that investors aren't thinking about.

You know, when I think about the best portfolios, they're really managed to think about after-tax outcomes, if you're taxable. And it's not what you earn on paper that matters, it's really what's left in your account after April 15th. So, you know, thinking about taxes, and how to incorporate that into your processes, is going to be pretty important. So, you know John, you know, we were talking about, you know, the rise of indexing before this call, and how it's really gone mainstream. You know, what's been your experience with investors who are, you know, thinking about getting started, and using indexing as an entry point to their portfolio? (pause) Oh, and I think you're on mute, John.

John Gagliardi: Better now? Good?

Daniel Prince: Yes, sir.

John Gagliardi: So, I can't describe how many hours of my day I actually spend describing indexes and how they work. Starting with the Dow Jones Industrial Average, founded in 1890, it's a price-weighted average. And it's only decided on by the editor of the *Wall Street Journal*, and people are amazed that the index is still alive and vibrant today with that much history, and it's so different than the other indexes. But the S&P specifically, we talk about quite a bit, because what are you getting? What is the purpose of the S&P? And it's really a twofold thing. You're getting a stock picking service through a panel of experts that decide what names come and go, and the turnover ratio, surprisingly, is high. It's 50 percent over the last 15 years. According to S&P, in the next 10, it will be 75 percent.

So, you are getting a fairly active portfolio in something as big as the S&P, and yes, you are diversified, you have all 11 sectors. But you're diversified for large cap U.S. base. So that covers a big piece of the puzzle, and that's a large part of what people are looking for in their stock universe anyway. So, it really does serve as a core position that makes sense in most all portfolios. And it's shocking how much time I spend talking about just that subject.

Daniel Prince: You and me both, John. And actually, this teases that perfectly for the last section. And you know, really what we wanted to cover here is you know, thinking about how to choose the right ETFs, and John, to your point, a lot of clients are asking like how, how are the different indexes constructed? And when you think about accessing them, it's generally through an ETF or an index mutual fund. And so, this is perfect for the conversation here, which is look, there's a lot of ETF options out there today, what's the framework for understanding them, and trying to separate wheat from chaff? How do I select, in a world filled with choice? Because choice is great, but navigating that choice is critically important.

So, you know, what I want to talk about for the remainder of my prepared comments is really having a framework of evaluating ETFs. And you know, we wanted to make it simple here, and we broke it down into really four sections about how to navigate a world where there's a lot of choice. And first, you really want to think about who's the manager behind the ETF? And how well do you know them, what's their experience in depth, in managing and supporting funds, right? And we'll talk about why that's important. The second thing is, what's the exposure per fund? You know, at the end of the day, an ETF is simply a transparent fund of stocks or bonds, or even commodities, so it's really what's inside that matters, and how it's constructed.

John mentioned the Dow index, which is completely different in how it's constructed than the S&P index. They're really not the same thing. And so, they lead you to a different set of holdings and different weights, and a different return and risk profile. So, we'll talk about exposure and why that's important. Third, we'll talk about what's the structure of the fund. Look in the ETF industry, there's not many differences from a structure perspective. But the, when you get the same index, and you see this with like, S&P 500 ETFs, they'll take a slightly different approach to capturing the S&P 500, so we'll walk through this, but this is one of the finer details of ETF due diligence. And last, you know, we talk about what are the costs of the fund? ETFs are generally known to be pretty cost efficient, but we like to take a total cost approach, and so we'll walk through what that means.

So, let's talk about the manager for a minute. And you know, one thing that's really notable about the ETF industry is how important scale matters. And you know, here in the chart, you can see the growth of the ETF industry hitting around 6 trillion today, and how pronounced that's been over the last 20 years. But I think, you know, what some folks would find interesting on this call is despite the fact that there's over 150 ETF providers today, so there's firms, 150 firms that are managing and selling ETFs today. Only three of those firms manage 80 percent of assets. So, it's that old 80/20 rule. Okay? Eighty

percent are managed by just three managers. And one provider alone manages almost 40 percent, and that's iShares. So, you know, what does that mean? It really paints the picture that scale matters in the industry. We talked earlier about low costs, tax efficiency, diversification being part of the value proposition of ETFs. That is more easily achieved when you have greater scale. So, in many cases, and especially in this industry, you know, bigger is better. Right? Like having that scale allows you to sort of pass on those efficiencies.

And today, you know, for iShares, you know, we have almost 400 ETFs that trade in the U.S. alone. And over the last two decades, iShares has really led the charge in innovation as a market leader, so not just the number of products, but the scale of those products, the liquidity of those products, the education of those products. So really, you know, for me, and maybe this is self-serving as the world's, you know, largest ETF manager, but the firm is pretty important when you think about a scale industry.

So, let's talk about exposure. Because this is something to get right, whether you're buying an individual ETF, or more importantly, if you're trying to build a thoughtful portfolio. And you want to make sure that the pieces fit. So, think about the left-hand side of this slide. You have I-T-O-T, ITOT. This is simply a

one ticker solution to buying the entire U.S. stock market, right? Market cap weighted. You own the market. And perhaps you don't want to buy just the entire stock market. You could start to think about getting precise with different sizes of companies. So, IBV, IJH, IJR, could give you exposure to larger companies versus smaller companies. So, you could start to tweak your portfolio basis off of your viewpoint. For instance, if you think we're going into a cyclical environment with smaller cap companies, you can start to buy more of those than large. So, you could start to dial up and down your exposure.

Or you could think about buying growth versus value stocks on the far right-hand side of this slide. So, you can create a U.S. portfolio, thinking about style. So, growth companies are companies that have higher sales and earnings growth versus value companies, whose stock price may be cheaper relative to its fundamentals than its peers, so value stocks. In any of these scenarios, you know, when it comes to exposure, you just want to make sure that you're using the right building blocks. Such that if you have a certain view you're trying to express, whether it's growth stocks or perhaps small cap stocks, that you own the funds that are designed to deliver that exposure. And that's why getting exposure is so important.

So, let me show you a case study of where that could go wrong, okay? So, here's a scenario where the building blocks are meant to be together, and perhaps they're not. So John, you mentioned at the onset, you know, I have a four-year-old son, and maybe this was more relevant when he was two, this was kind of a fun thing to watch, maybe that's being a Dad here, but he had both Lincoln Logs and Legos. And you know, while they're both fun today in their own right, like when he was young, he was trying to combine them. And he wasn't getting very far, I'll tell you that much, right? Lincoln Logs and Legos don't work, right? And that's what we mean by knowing your exposure. You want to make sure that if you're buying multiple pieces, or building a portfolio, that they work together.

And you know, here's an example in the industry of two index providers, and they both say midcap index on the label, one is an S&P, the other one is a CRSP index. And, but they don't necessarily own the same thing. And these are, there's two different ETFs from different providers that track these two respective indexes. And just look at the slide here where you can see the lack of overlap of these portfolios. So, these two midcap indexes, so middle sized U.S. securities, only have a 2 percent overlap between these portfolios. That means that 98 percent of that portfolio is different. So clearly, these aren't the same holdings. In fact, you know, the CRSP midcap index, and therefore the

ETF that tracks that index, has more in common with the S&P 500, a large cap index, than it does with the comparable midcap ETF. So, you know, when it comes to doing your homework, when you build the portfolio, make sure you use ETFs that don't create unintentional overlap. Right? You know, you don't want to build a portfolio with Lincoln Logs and Legos bolted together, right? That's shakier ground, and most likely unintentional. That'll allow you to avoid this common pitfall that we see. Legos with Legos, Lincoln Logs with Lincoln Logs. Okay?

So, let's spend a minute on structure, and really as I mentioned, there are fewer instances where this is a difference between two ETFs. You know, unlike exposure where that could play a really large role. But it can be important in some cases. In fact, you know, three of the largest ETFs out there, if you're measuring that by fund size or AUM, or assets, track the S&P 500 index. So, structure is a really great case study here on the differences with these ETFs. On the left-hand side here, the one from iShares is structured as an open-ended mutual fund, as most ETFs are. And you know, the ticker here is IVV. And IVV is a standalone ETF, which means it's not a share class of a mutual fund. It also reinvests dividends as they're received from the underlying companies, so there's minimal cash drag in the portfolio. And the

fund is daily transparent, which means the holdings are disclosed on a daily basis, and there's one low fee, because it's one fund, one share class.

The other two S&P 500 ETFs have slightly different structures. One is a UIT, and the other one's a multi share class structure. And it can have different implications, and you know, this is a great question to ask the experts, you know, like what are the differences here? But we list off some of the attributes here. So, you know, when looking at similar indexes, you know, structure can matter when digging into the fine details. So, a little bit around structure case study for three S&P 500 ETFs, and you know, this is the level of precision in my role, like we talk about the nuances, and then the implications for investors around those implications.

So, let's start to round out this four-part framework, and talk a little bit about cost for selecting and evaluating ETFs. And you know, by cost, we mean to look at all-in costs. And the way that I like to think about this is how Tesla sells and markets their cars. On the website, Tesla will conduct a cost comparison. So, they'll showcase two sedans side by side, Tesla versus like, let's say a comparable BMW. And they'll show the sticker price, but then they also show how much you don't spend in inefficiencies around not needing gas, you know, lower maintenance, right? I didn't even think about this when I first

started thinking about this analogy, but like you don't have oil, right? You don't have to change oil; you don't have that sort of maintenance cost.

And what they're trying to showcase on the website is like look at the total cost and look at some of the efficiencies you get here. So, you know, for ETFs, you know, you have things like the stated expense ratio, they are a fund, they do charge a fee. You have commissions, well unless you're trading commission-free at Fidelity, right? You have internal costs such as the spread, right? ETFs trade like a stock, there's a bid, there's an ask of the market, so there's a spread. The tighter the spread, the lower the cost, the wider the spread, the higher the cost. And then you have things like tracking error, or you know, delivering that index return less the fee is what you should expect. And you know, maybe there's even some tax costs between income and capital gain distribution. So, you know, when we think about evaluating ETFs for cost, we think about this total cost equation. So, you know, this is meant to really be a complete picture of what the costs are, and really my goal here isn't to say there's some hidden costs with ETFs, right, all these are pretty visible, but you just want to think about all the efficiencies that come along. So, think about the Tesla example, it's not just the sticker price, it's you know, how much you save in maintenance, or we'll call it tracking error. It's, you know, what's the

benefit of being, not having to change oil, service the engine, etc., think about those things like trading spreads, right? So, you know, the less cost the better.

So that's really, you know, what we want to talk about with, regarding costs, as sort of that last component of ETF due diligence. Again, you know, there's 2,000 ETFs that trade out there. And you know, using a framework like who's the manager, what is the index, or what's the exposure, what's the structure, making sure you're sort of operating on the efficient frontier of what's the right structure, and then what are your total costs, you know, would be sort of the beginning of a very robust framework.

So, you know, with that, let's bring this webinar home here. You know, I went through a couple common steps here when it comes to indexing and ETFs for everyone. First, really, you know, we hit upon the power of diversification. And how, despite the fact that we've had a very robust market in the U.S. for many years, half the stocks of the last five have lost money, right? We talked through why indexing has become mainstream. Over the last two decades, you know, you've seen the rise of indexing, because of the availability through ETFs and the benefits of things like diversification, and low cost, and tax efficiency, this is becoming increasingly important to investors.

And you know, we really closed out really the last section with a framework to select or choose ETFs. So, the manager, the exposure of the fund, the structure, the cost. So, you know, with that, let me conclude my prepared remarks here, and I guess you know, thank you for your time, and maybe turn it back over to you, John.

John Gagliardi: All right, great job Danny. So, I'm going to go over here and screenshare. And I'm going to grab a little bit here from Fidelity.com. So, I'm going to dial it back one notch and then go through this a bit. So, in some of the questions and remarks, and I'm seeing things like can we basically explain an exchange traded fund? So, exchange traded funds are exactly that, they're exchange traded, much like a stock.

So, they get a lot of the benefits that stocks have. So, in trading a lot like a stock, there's some tax benefits. Unlike mutual funds that throw off capital gains all the time, every year, whenever there's gains, even if the value of the fund goes down, as you know, there could be capital gains that have to be paid on a mutual fund, whereas ETFs are more tax efficient. They trade much more like stocks. They could throw off capital gains, but generally, for the most part, they don't, and that's where our friends at Blackrock come in, because they manage their ETFs very tax efficiently.

So how did I get here? I went to investment products, I came down here to ETFs. And right from here, since we're talking with our good friends here at Blackrock, I could go right here to the iShares suite of ETFs, and I think Danny mentioned how it's important not to have overlap, so it sometimes pays to stick with one family of funds, so this way you don't get that overlap in going from say, small, midcap, to large cap, or other types of things.

So some of the ETFs that we spoke about today, you'll see here on your maximizing growth, so these are all large stocks, portfolios, whether it's the S&P 500, IVV, ITOT, which is total market index, or even using an international index. And just using some of these basic things, you could create a very broad and diversified portfolio. And of course, if there's themes that you want to use or other types of things, if you're looking for income, there's all of these other choices, but we'll talk about those in some of our later segments.

For now, let me zero in on one name here, I'll click on IVV, and this'll drop me right into the research for this. And one of the things that Danny mentioned was how efficient they are, and low cost. So that low-cost factor here, net expense ratio is three, not tenths of a percent, three hundredths of a percent. So, let me translate that for you. Every $100,000 will cost you $30 in total

management every year. So, it is very, very inexpensive to run this. And what do you get in return for that management fee of three hundredths of a percent? You're getting all the diversification that comes with the S&P 500.

Now you might notice the top 10 names here look very familiar, they're all household names. Apple, Microsoft, Amazon, Facebook, Google, Berkshire Hathaway, Johnson and Johnson, Procter and Gamble, and Visa. Now those 10 names make up 27, almost 28 percent of the portfolio. And that goes back to another lesson that Danny taught us was not every stock in the market is successful. Although the stock market might be successful, or this index would be successful. And a lot of that success depends on the math behind this.

And one of the things I love about the S&P in general is, it was created in the '50s, where we really had this hyper focus on getting out to the Moon, and we had a big focus on math and science in schools. And you could see that in this index. They really took a lot of care to think about this and said what is the best way to create an index? Is it really based on price? Which, by the way, a reason Apple has to continually, to do splits, is to keep itself in the Dow, because if it was trading at $2,000 a share, it would whip around the Dow like a kite, because it's a price weighted average. But instead, this index is actually

based on market cap. So, the bigger the company, the higher the space in this.

Now one name that you might see missing here in the top 10, ExxonMobil. ExxonMobil, as you know, the oil patch has not had a good last five years. ExxonMobil was the number one name in this index for 30 years, and I challenge you to find it. You're going to be having to sift through somewhere in the middle of the pack. So, if you're not managing your portfolio, having this market cap weighting, this is in fact a risk management factor you're getting.

So, let's summarize here, we're getting a couple of things. We're getting very low cost in some of these indexes, as low as three hundredths of a percent. We are getting a diversified portfolio, because if you notice, if I go through this, and I click more here, you'll see the portfolio composition is a very diversified portfolio, you have exposure to all 11 sectors. Now of course, it is a large cap blend, and right now tech is leading, because those are the big market caps right now. But as markets change, so will this portfolio.

So, you're getting risk management, expert stock picking, at virtually no cost, three hundredths of a percent, I'll challenge you to find management fees that

are lower than that. So, you're getting a lot for what you're -- a lot, it fills a lot of buckets for most investors. And I didn't really talk enough probably about that tax factor. If you buy this, and you own the S&P 500, as an example, not -- I'm picking on this because it's the name everyone knows -- but if you're holding this in the portfolio long-term, you never pay any taxes on it until you sell. So, if you're in a taxable account, these are extremely tax efficient. That might not matter as much in an IRA account, because the tax efficiency is in the structure of the account, but if you are in a taxable account, these may look more interesting, because you won't have those capital gains year in and year out. But you will get the dividends. So, the dividend that does get paid will pass through right directly to you.

So, with that, let's get a little bit of a stock search here. So, if I go to news and research here, and I come down here to ETFs, now this is a different section here for Fidelity.com. In this space, this is where I can do a lot of other work. I can see what stocks are -- what ETFs are on the move today. I could track the market through ETFs, so there's tons of interesting stuff here. And I can search for ETFs many different ways. One way that might be popular is that if you're looking at an individual stock, you might be wondering well, which ETF might be holding names like Apple and Amazon? Oops and I got in there, AM, by mistake.

And I could actually run a stock search, an ETF search, from here. I keep saying stock search. And I could say view matching ETFs, and you'll notice at the bottom of the page I've got some names here that are heavily indexed, names like Apple and Amazon. Now if you already own Apple and Amazon, you might be looking for indexes that don't have those, so you can get that diversification. But if I were to run a stock search here, I can start with my iShares group, and I can look for iShare core ETFs. If you're looking to build that core portfolio, and then from that core portfolio, then you're looking at all the different satellites, like different themes. This could be some of your very basic building blocks here. And you might notice that all we have here is just an ETF search based on two things. We're looking for our publishers, our good friends there at Blackrock, and we're looking for core portfolio positions that we could take on.

And one of the other ones we mentioned was ITOT, so a total market index. And when I click on this, of course, it's going to give me all the details here again, the expense ratio on this is three hundredths of a percent. And because we're looking more at a world index, you'll notice the total number of holdings, 3,591 positions. So, if diversification is our goal, I think we found it here, where with a total market index, we're looking across all markets. Now if

I want to, I can actually see every holding in the index. And again, this is a market cap weighted index, so you can see, there's no shortage of names here to get us that diversification that you might be looking for.

So, with that, I think we have some questions that we're going to be queuing up. So, what are some of the other things that you look for in individual ETFs? And to answer that, the first thing, is what is your goal? As an investor, do you have a specific goal in mind here when you're looking at a specific name? So, we're going over the big picture stuff in those core holdings, whether you're looking for a total market index, or the S&P, to act as your buffer and to be your, essentially, be a money manager of sorts. Or if you have a very specific need in mind. That's the first point. Are we filling a need?

And then the second thing is, who is the publisher? Because not all ETF sponsors are created equal. You're looking for one that is extremely tax efficient, and one with low expense ratios, of course, never hurts. But in the end, you're looking for a lot of that performance. And of course, if we looked across the universe here, we could go across, and we could see, and we can compare to other similar ETFs. So, one of the comparison ones here would be the iShares Russell 3000. So, most people don't know, but the Russell 3000 is

actually another large cap index, because it's just looking across a bigger universe of about all 6,000 stocks.

So, we're looking at two different ways to kind of slice the apple here on markets, to look at the world. And click through, see what things matter to you the most. If net assets is an important factor, you might notice that net assets, ITOT, has about three times the coverage of the Russell 3000. Net expense ratio is pretty different, three hundredths of a percent versus two tenths of a percent. And they're both tracking pretty steadily here. If you look across the universe here, they're pretty tied to their underlying assets.

So, let's see what other questions that we have here. So, one of the other basic questions is what's the difference between ETFs and mutual funds? So, in the world of indexing, I would say the major factor is the, that market cap. So, if I was looking at, if I was looking at the ETF version, the mutual fund version of the S&P 500, what we're really looking at here is a different asset class. Really, with the underlying being the same thing, the index of the S&P 500. So, the performance should be extremely close, and again, the costs on these are very inexpensive, but the big difference is that taxation. If you're in a taxable account, and if this is creating taxable gains every year, if you're in a tax bracket where you're paying 30 percent overall of your federal and state

tax, think of being held back 30 percent every year on your gains, whereas owning the ETF, you would keep that 30 percent for yourself from those gains every year. Year in and year out. And that's a much different way of building wealth. Because other than that, the underlying index will be identical, it's really going to be all about that tax structure and being in a more efficient tax structure.

So, let's go back to the questions here. So, Dan, I'll throw the question back at you, so we'll keep this lively moving along. What do I actually own if I buy one share of an ETF?

Daniel Prince: Yeah, I think you mentioned a couple tickers there. If you buy one share of an ETF, you are a beneficial owner of all the companies inside of that portfolio, just whatever the share price is. So, if you bought, you know, one share of IVV, a couple hundred dollars, you have a couple hundred dollars of exposure to those 500 stocks. So, ETFs, just like mutual funds, simply are their own company, that company owns all the stocks, you're the owner of that.

John Gagliardi: So, I have some folks here that actually want to get under the hood a little more, Danny. So why is an ETF more tax efficient than a mutual fund?

They want to kind of get under the hood and see how the sausage is being made in the factory there.

Daniel Prince: Yeah, and I wonder, you know… so I'm in San Francisco, a lot of electric cars here. I wonder like, will under the hood change in the future when there's like a trunk under the hood for cars that zoom past my house. But, you know, I think an easy way to think about why ETFs are generally tax efficient is really two reasons, John. One is most ETFs are indexed. We've talked about that a lot, that's sort of how investors are accessing indexes today, through ETFs. Indexes as a strategy tend to be lower turnover. I know you mentioned the S&P has a little bit higher turnover, but most indexes in general have lower turnover. Lower turnover means less realizing of gains, and that's a source of tax efficiency.

The other is the structure. The fact that it's exchange traded means investors are really insulated from other people's activities. For instance, John, if you were going to go buy an ETF, you don't come to Blackrock to buy one of our ETFs. You just buy it in the market. There's a seller, you're a buyer, you meet in the market just like a stock. You don't send money to Blackrock, we don't need to buy and sell within the portfolio, you can exchange ownership on the exchange. That insulates the fund from cashflow. And so, the structure of

buying it on the exchange has really made and been a source of tax efficiency, along with the low turnover strategy.

John Gagliardi: All right. Well, we got one more question, because people really do want to get under the hood here a bit, not to date myself, it's like have you ever seen somebody go, "Roll down the window," and they do this? And my kids go, "Why are you doing this for roll down the window?" But another question is, do we own the actual underlying stocks in an ETF? Or do we own some sort of an index, or a futures product?

Daniel Prince: Yeah, most ETFs today that you'll come across, all iShares, you own the stocks. You know, a firm like Blackrock, iShares, we manage it. But at the end of the day, you are an owner of that fund, so if something were to happen to Blackrock iShares, you know, you own the assets. And you own the actual stock. So, if you go, I know Fidelity will list out all the holdings, iShares.com, we have all the holdings, you literally just own those stocks. And we're just managing that on behalf of shareholders.

John Gagliardi: Okay. So one last question here, I think it might be directed more towards me, because it's more or less what I answer every day, is what to look for, and I think we went over some of those items there, and what to look for,

and one of the things that I really like about ETFs that make them unique from a lot of other things, because they're so much like a stock, I can actually risk manage an ETF the same way I could risk manage a stock. So, I could use some tools and in other demos today, I'm sure that we're going to be talking about this. There's no reason I, if I'm looking to buy IVV, and I want to be invested, but I'm so concerned about some of the headline news and there's so much negativity out there. I'm really concerned about this long-term trend. And you know, if we broke this prior low that we just established here in September, I might be spooked, and I may want to be out. And there's nothing wrong with establishing a position, creating a stop where you no longer feel comfortable, and then even creating a target price, and here's a great thing, with some of the tools on Fidelity Active Trader Pro, or Fidelity.com, you could use something called Trade Armor, you could place all three trades at the same time.

So, Dan, thank you very much. I know that we're at time, so this is our quick recap here at the end here, that if you're interested in these things, you could contact myself, if you live in the New York, New Jersey area. And if you're not in the region, we have other regional brokerage consultants just like myself, from this page you could put in where you're located, and we could find your

regional brokerage consultant in your region. So, Danny, thank you very much for taking us through today.

Daniel Prince: Absolutely, thank you John for hosting this.

END OF AUDIO FILE

Free commission offer applies to online purchases of iShares ETFs in a Fidelity retail account. The sale of ETFs is subject to an activity assessment fee (from $0.01 to $0.03 per $1,000 of principal).

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.

For iShares ETFs, Fidelity receives compensation from the ETF sponsor and/or its affiliates in connection with an exclusive long-term marketing program that includes promotion of iShares ETFs and inclusion of iShares funds in certain FBS platforms and investment programs. Please note, this security will not be marginable for 30 days from the settlement date, at which time it will automatically become eligible for margin collateral. Additional information about the sources, amounts, and terms of compensation can be found in the ETF's prospectus and related documents. Fidelity may add or waive commissions on ETFs without prior notice. BlackRock and iShares are registered trademarks of BlackRock Inc., and its affiliates.

Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. ETPs that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus. ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case of exchange-traded notes). The degree of liquidity can vary significantly from one ETP to another and losses may be magnified if no liquid market exists for the ETP's shares when attempting to sell them. Each ETP has a unique risk profile, detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

Past performance is no guarantee of future results.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

iShares, BlackRock and Fidelity Investments are independent entities and are not legally affiliated.

The views expressed are as of the date indicated and may change based on market or other conditions. Unless otherwise noted, the opinions provided are those of the speaker or author, as applicable, and not necessarily those of Fidelity Investments. The experts are not employed by Fidelity but may receive compensation from Fidelity for their services.

As with all your investments through Fidelity, you must make your own determination whether an investment in any particular security or securities is consistent with your investment objectives, risk tolerance, financial situation, and evaluation of the security.

Fidelity is not recommending or endorsing this investment by making it available to its customers.

Any screenshots, charts, or company trading symbols mentioned are provided for illustrative purposes only and should not be considered an offer to sell, a solicitation of an offer to buy, or a recommendation for the security.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, an offering circular, or, if available, a summary prospectus containing this information. Read it carefully.

952990.1.0