

## THE TRUTH ABOUT SETTLING FOR ETFs

(2019)

On Aug. 31, 1976, John Bogle launched the first index fund. Originally called the First Index Investment Trust, it was later renamed the Vanguard S&P Index (VFINX). Today, there are 1,125 index funds holding just over 3.2 trillion dollars, led by Vanguard 500 Index (VFIAX) with \$230 billion.

This led to Exchange-Traded Funds. As of this moment, there are 2,278 ETFs in 93 categories managing holding \$3.4 trillion, with the largest ETF – SPDR S&P 500 – holding \$243 billion.

The catalyst for this soaring growth was the constant drone from the likes of John Bogle and writer Jonathan Clements that actively managed mutual funds just do not beat their category index.

I first took on this challenge in 1996. Here is an excerpt from that report:

“Only those mutual funds that invest in S&P 500 member companies should participate in a comparison to the S&P 500. And not all of these S&P 500-like funds should be held accountable for beating the S&P 500.

Beta measures the risk taken by a mutual fund in comparison to the risk taken by the overall market. In this case, the market is defined as the S&P 500. A fund with a beta of 0.70 is a fund that is taking only 70% of the risk of the overall market. Therefore, it should not be expected to beat the overall market. Instead, it should be expected to beat 70% of the performance of the market. Thus, the only funds that should be expected to beat the S&P 500 are those funds with a beta of 1.00 or higher. That is, those funds taking at least as much risk as the S&P 500.

In that light, for the 5-year period 12/31/1990 – 12/31/1995, 89% of those actively-managed funds did indeed beat the S&P 500.”

Too many advisors leaped to the conclusion that “if you cannot beat ‘em, buy ‘em!”

Let us consider this question a bit differently.

1. What percent of investors need a financial advisor to purchase ETFs for them? The financial media is happy to help them every step of the way!
2. How are you separating yourself from other advisors if you too promote ETFs?

3. Lastly, let us take a look at the competitive results between ETFs and actively-managed funds from the same categories. Over the last three years (2016-2018), the results do not suggest abandoning actively-managed funds for the category ETF.

Ranked best ETF success to worst ETF success:

Category	ETF Name	ETF Rank	Funds	ETF RANK
Communications	SPDR« S&P Telecom	1	4	1%
Financial	Vanguard Financials	1	11	1%
Allocation--30% to 50% Equity	Invesco CEF Income Composite	7	87	8%
Global Real Estate	Vanguard Global ex-US Real Est	6	49	12%
Long-Short Equity	WisdomTree Dyn Long/Short US Eq	10	72	14%
Health	iShares US Healthcare	3	19	16%
Small Value	iShares Russell 2000 Value	15	92	16%
Utilities	Utilities Select Sector SPDR«	1	6	17%
Large Blend	iShares Russell 1000	48	228	21%
Small Blend	iShares Russell 2000	38	163	23%
Large Growth	iShares S&P 500 Growth	65	261	25%
Mid-Cap Blend	Vanguard Mid-Cap	22	80	28%
Convertibles	SPDR Blmbg Barclays Convert Secs	6	19	32%
Europe Stock	iShares Europe	6	19	32%
Foreign Large Blend	iShares Core MSCI EAFE	42	131	32%
Equity Energy	Vanguard Energy	5	15	33%
Latin America Stock	First Trust Latin America AlphaDEX	1	3	33%
Real Estate	Vanguard Real Estate	19	54	35%
Diversified Emerging Mkts	Vanguard FTSE Emerging Markets	70	181	39%
Mid-Cap Value	Vanguard Mid-Cap Value	32	82	39%
Foreign Large Value	iShares MSCI EAFE Value	27	67	40%
Allocation--50% to 70% Equity	iShares Core Growth Allocation	50	124	40%
Technology	Technology Select Sector SPDR«	11	26	42%
Japan Stock	iShares MSCI Japan	4	9	44%
Inflation-Protected Bond	iShares TIPS Bond	19	41	46%
High Yield Bond	SPDR Blmbg Barclays High Yield Bd	83	162	51%
Large Value	iShares Russell 1000 Value	130	246	53%
Pacific/Asia ex-Japan Stk	iShares MSCI Pacific ex Japan	13	24	54%
Long-Term Bond	Vanguard Long-Term Bond	5	9	56%
Foreign Large Growth	iShares MSCI EAFE Growth	53	90	59%
Intermediate Government	Vanguard Intmdt-Term Trs	20	33	61%
Emerging Markets Bond	VanEck Vectors EM Aggregate Bond	39	64	61%
Mid-Cap Growth	Vanguard Mid-Cap Growth	86	135	64%
Intermediate-Term Bond	Vanguard Interm-Term Bond	140	211	66%
Small Growth	iShares Russell 2000 Growth	109	164	66%

Category	ETF Name	ETF Rank	Funds	ETF RANK
India Equity	iShares MSCI India	2	3	67%
High Yield Muni	SPDR Nuveen S&P High Yield Muni	28	39	72%
Corporate Bond	SPDR Bloomberg Barclays Corp Bd	25	34	74%
Global Real Estate	SPDR Dow Jones Global Real Estate	38	49	78%
Bank Loan	Invesco Senior Loan	45	58	78%
Energy Limited Partnership	Alerian MLP	27	33	82%
Diversified Pacific/Asia	iShares Core MSCI Pacific	5	6	83%
Preferred Stock	Invesco Preferred	10	12	83%
Short-Term Bond	Vanguard Short-Term Bond	87	103	84%
China Region	KraneShares CICC China Ldrs 100	11	13	85%
Emerg-Mkt Local-Currency	SPDR« Blmbg Barclays Em Mkts Lcl	14	16	88%
Bank Loan	Highland/iBoxx Senior Loan	56	58	97%

*Institutional funds were chosen for the comparison*

That is over 3,000 actively-managed funds from which you can choose!

Please consider this before joining the herd of ETF converts.

- The next charts list the categories that have ETF representation and the number of ETFs for each category,
- followed by a list of ETFs that have the highest AUM in each category:

Category	ETFs	Category	ETFs
Allocation--15% to 30% Equity	4	Long Government	8
Allocation--30% to 50% Equity	11	Long-Short Credit	1
Allocation--50% to 70% Equity	9	Long-Short Equity	18
Allocation--70% to 85% Equity	4	Long-Term Bond	3
Allocation--85%+ Equity	2	Managed Futures	4
Bank Loan	7	Market Neutral	9
Bear Market	4	Mid-Cap Blend	41
China Region	48	Mid-Cap Growth	31
Commodities Agriculture	25	Mid-Cap Value	29
Commodities Broad Basket	26	Miscellaneous Region	97
Commodities Energy	21	Miscellaneous Sector	26
Commodities Industrial Metals	14	Multialternative	7
Commodities Precious Metals	27	Multicurrency	18
Communications	9	Multisector Bond	9
Consumer Cyclical	25	Muni California Intermediate	1
Consumer Defensive	16	Muni California Long	2
Convertibles	3	Muni National Interm	20
Corporate Bond	52	Muni National Long	7
Diversified Emerging Mkts	78	Muni National Short	12
Diversified Pacific/Asia	5	Muni New York Intermediate	1
Emerging Markets Bond	20	Muni New York Long	1
Emerg-Market Local-Currency	9	Natural Resources	32
Energy Limited Partnership	25	Nontraditional Bond	14
Equity Energy	27	Options-based	22
Equity Precious Metals	12	Pacific/Asia ex-Japan Stk	14
Europe Stock	40	Preferred Stock	15
Financial	32	Real Estate	27
Foreign Large Blend	69	Short Government	9
Foreign Large Growth	14	Short-Term Bond	27
Foreign Large Value	38	Single Currency	16
Foreign Small/Mid Blend	9	Small Blend	42
Foreign Small/Mid Growth	1	Small Growth	18
Foreign Small/Mid Value	7	Small Value	24
Global Real Estate	11	Tactical Allocation	5
Health	35	Technology	60
High Yield Bond	42	Trading--Inverse Commodities	22
High Yield Muni	4	Trading--Inverse Debt	18
India Equity	12	Trading--Inverse Equity	71
Industrials	23	Trading--Leveraged Commodities	16
Inflation-Protected Bond	14	Trading--Leveraged Debt	10
Infrastructure	11	Trading--Leveraged Equity	103
Intermediate Government	11	Trading--Miscellaneous	16
Intermediate-Term Bond	34	Ultrashort Bond	23
Japan Stock	23	Utilities	13
Large Blend	147	Volatility	15
Large Growth	50	World Allocation	18
Large Value	92	World Bond	18
Latin America Stock	9	World Stock	54

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Largest ETF in each category:

Category	Name	Assets (\$millions)
Allocation--15% to 30% Equity	WBI BullBear Global High Income	201
Allocation--30% to 50% Equity	iShares Core Moderate Allocation	1,226
Allocation--50% to 70% Equity	iShares Core Growth Allocation	1,314
Allocation--70% to 85% Equity	iShares Core Aggressive Allocation	993
Allocation--85%+ Equity	Invesco Zacks Multi-Asset Income	230
Bank Loan	Invesco Senior Loan	5,427
Bear Market	AdvisorShares Ranger Equity Bear	141
China Region	iShares China Large-Cap	5,672
Commodities Agriculture	Invesco DB Agriculture	495
Commodities Broad Basket	Invesco DB Commodity Tracking	1,933
Commodities Energy	United States Oil	1,473
Commodities Industrial Metals	Invesco DB Base Metals	161
Commodities Precious Metals	SPDR® Gold Shares	32,446
Communications	Communication Services Sel Sect SPDR	2,777
Consumer Cyclical	Consumer Discret Sel Sect SPDR	11,820
Consumer Defensive	Consumer Staples Select Sector SPDR	9,662
Convertibles	SPDR® Blmbg Barclays Convert Secs	3,819
Corporate Bond	iShares iBoxx \$ Invmt Grade Corp Bd	29,671
Diversified Emerging Mkts	Vanguard FTSE Emerging Markets	55,252
Diversified Pacific/Asia	Vanguard FTSE Pacific	3,765
Emerging Markets Bond	iShares JP Morgan USD Em Mkts Bd	14,125
Emerg-Mkts Local-Currency	VanEck Vectors JP Morgan EM LC Bd	4,606
Energy Limited Partnership	Alerian MLP	8,262
Equity Energy	Energy Select Sector SPDR	13,523
Equity Precious Metals	VanEck Vectors Gold Miners	10,576
Europe Stock	Vanguard FTSE Europe	12,836
Financial	Financial Select Sector SPDR	22,859
Foreign Large Blend	Vanguard FTSE Developed Markets	65,145
Foreign Large Growth	iShares MSCI EAFE Growth	3,589
Foreign Large Value	iShares MSCI EAFE Value	5,753
Foreign Small/Mid Blend	iShares MSCI EAFE Small-Cap	8,525
Foreign Small/Mid Growth	Renaissance International IPO	2
Foreign Small/Mid Value	WisdomTree International SmallCp Div	1,559
Global Real Estate	Vanguard Global ex-US Real Est	5,223
Health	Health Care Select Sector SPDR	17,983
High Yield Bond	iShares iBoxx \$ High Yield Corp Bd	13,154
High Yield Muni	VanEck Vectors High-Yield Municipal	2,372
India Equity	iShares MSCI India	4,713
Industrials	Industrial Select Sector SPDR	10,289
Inflation-Protected Bond	iShares TIPS Bond	21,356
Infrastructure	iShares Global Infrastructure	2,441
Intermediate Government	iShares MBS	12,290
Intermediate-Term Bond	iShares Core US Aggregate Bond	56,931
Japan Stock	iShares MSCI Japan	15,254
Large Blend	SPDR® S&P 500	243,393
Large Growth	Invesco QQQ Trust	61,146

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Category	Name	Assets (\$millions)
Large Value	Vanguard Value	41,408
Latin America Stock	iShares MSCI Brazil Capped	7,695
Long Government	iShares 7-10 Year Treasury Bond	10,205
Long-Short Credit	Saba Closed-End Funds	33
Long-Short Equity	First Trust Long/Short Equity	174
Long-Term Bond	Vanguard Long-Term Bond	2,708
Managed Futures	WisdomTree Managed Futures Strategy	260
Market Neutral	IQ Merger Arbitrage	835
Mid-Cap Blend	iShares Core S&P Mid-Cap	41,657
Mid-Cap Growth	iShares Russell Mid-Cap Growth	8,494
Mid-Cap Value	iShares Russell Mid-Cap Value	10,103
Miscellaneous Region	iShares MSCI South Korea Capped	4,188
Miscellaneous Sector	iShares Exponential Technologies	2,121
Multialternative	IQ Hedge Multi-Strategy Tracker	1,329
Multicurrency	Invesco DB US Dollar Bullish	505
Multisector Bond	FormulaFolios Tactical Income	191
Muni National Interm	iShares National Muni Bond	11,862
Muni National Long	SPDR® Nuveen Blmbg Barclays Muni Bd	2,848
Muni National Short	SPDR® Nuveen Blmbg Barclays ST MunBd	3,803
Natural Resources	FlexShares Mstar Gbl Upstrm Nat Res	4,983
Nontraditional Bond	ProShares Investment Grade Intr Rt Hdgd	360
Options-based	Global X NASDAQ 100 Covered Call	408
Pacific/Asia ex-Japan Stk	iShares MSCI All Country Asia ex Jpn	4,175
Preferred Stock	iShares US Preferred Stock	13,546
Real Estate	Vanguard Real Estate	27,835
Short Government	iShares 1-3 Year Treasury Bond	20,649
Short-Term Bond	Vanguard Short-Term Bond	27,945
Single Currency	Invesco CurrencyShares Euro Currency	317
Small Blend	iShares Russell 2000	40,872
Small Growth	iShares Russell 2000 Growth	8,339
Small Value	Vanguard Small-Cap Value	11,528
Tactical Allocation	YieldShares High Income	175
Technology	Technology Select Sector SPDR	17,368
Trading--Inverse Commodities	VelocityShares 3x Inv Natural Gas	395
Trading--Inverse Debt	ProShares UltraShort 20+ Year Treasury	1,211
Trading--Inverse Equity	ProShares Short S&P500	1,923
Trading--Leveraged Commodities	VelocityShares 3x Lng Crude Oil New	383
Trading--Leveraged Debt	Direxion Daily 20+ Yr Trsy Bull 3X	108
Trading--Leveraged Equity	ProShares UltraPro QQQ	3,322
Trading--Miscellaneous	Bitcoin Investment Trust	768
Ultrashort Bond	iShares Short Treasury Bond	20,690
Utilities	Utilities Select Sector SPDR	8,582
Volatility	iPath® S&P 500 VIX ST Futures	888
World Allocation	Cambria Global Momentum	106
World Bond	Vanguard Total International Bond	12,812
World Large Stock	Vanguard Total World Stock	11,841
World Small/Mid Stock	Robo Global Robotics&Automation	1,212

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