SPONSOR CONTENT PRODUCED BY RANDALL ANTHONY COMMUNICATIONS. THE GLOBE'S EDITORIAL DEPARTMENT WAS NOT INVOLVED IN ITS CREATION.

ETFs

Exchange-traded funds are having a viral moment

WHY NOW? IT'S A SYNERGY OF NECESSITY, TECHNOLOGY, EDUCATION AND REACH

DESPITE BEING THE FOUNDATION OF COST-CONSCIOUS INVESTOR PORTFOLIOS since the world's first ETF was launched here in 1993, ETF awareness has grown incrementally among Canadian investors. But the latest investment stats show these quiet workhorses are finally reaching a tipping point.

> **"When I started in this sector, there were seven providers. There are now 35.**
>
> **Pat Dunwoody**
> executive director of the Canadian ETF Association (CETFA)

Investor education has provided decided impetus, due, in part, to a growing number of ETF industry voices contributing to conversations, says Pat Dunwoody, executive director of the Canadian ETF Association (CETFA). "When I started in this sector, there were seven providers," she says. "There are now 35."

Among them are the mutual fund companies that were initially viewed as the competition. "Everyone is finally seeing that the ETF framework just makes sense," says Ms. Dunwoody.

Demand across generations has led to the introduction of ETF products in all sectors, regions and price points, from fundamentally managed active solutions all the way to the plain vanilla index-type solutions.

For investors, necessity is another primary driver, she says. "One of the biggest new investment cohorts we saw last year was people over 65. Whether they're working with an adviser or are self-managing their investments, they're very conscious of longer life expectancy, and they often haven't accumulated as much money as they'd planned. They're asking how to extend their retirement funds, and one way is to look very closely at the fees they're paying."

While most financial advisers agree there is a place for professionally managed funds, there is also broad agreement that passive funds are an effective way to lower costs, especially in the core portfolio. While traditionalists may argue that the combined costs of ETF management fees and fee-based adviser costs are close to equivalent to mutual fund fees that include adviser commissions, paying adviser fees outside of the portfolio has undeniable advantages, says Ms. Dunwoody. "There is no compounding effect, which can have a huge impact when you're trying to make your money go further."

On the other end of the lifecycle, the other leading new ETF investor cohort is 25- to 35-year-olds, CETFA reports. "They're starting their careers, and while they may not have a huge amount to invest, when they do, it has to be on an app. It has to be easy. That is where robo-advisers are making inroads. You can have an account in 10 minutes, with $50 or $100 going into it each time you get paid. You're done. And if you have a question, there is a portfolio manager you can speak to."

Tyler Mordy, president and CIO of Forstrong Global Asset Management, says, "There were many early converts attracted by the low costs, liquidity, tax efficiency and so forth. The phase we're in now is all about, 'We have this very expansive and far-reaching global toolset – what do we do with it? What's the investment process?'"

In terms of investment valuations, the global outlook is "pretty lopsided," Mr. Mordy adds. "In the major asset classes, cash and bonds are very expensive, commodities are so-so, and stocks in the U.S. are expensive. That leads value-conscious investors toward more attractive valuations in international and emerging markets."

As a global asset manager, Mr. Mordy urges investors to think about their income-earning potential along with their investment goals. "You want to diversify away from the industry and region in which you work. When you have a recession, you don't want to lose your job at the same time your portfolio value goes down."

The world's major Western economies are now in a slow-growth, lower-return stage, with aging populations, higher debt levels, lower interest rates and higher asset valuations, he says. "It's essential to include some exposure to emerging markets, where most of global growth will be over the next 20 to 30 years.

"ETFs are a financial technology that makes it possible to build more globalized, diverse and robust portfolios. Am I going to overweight Chinese equities by trying to pick the right stocks? Or will I take a more diversified approach? Buying ETFs has become a no-brainer."

TEST YOUR KNOWLEDGE, OR SOMEBODY ELSE'S

When CETFA asked investors who didn't own ETFs why this was the case, 52 per cent said it was because they didn't know what an ETF is. And another 16 per cent said they didn't understand ETFs well enough to invest in them. Here is a quick review of the basic terminology.

WHAT'S AN ETF?

In its simplest form, an ETF is a fund that trades on a stock exchange. Rather than buying a number of shares, investors buy a number of units, and each unit represents a portion of a much larger pool of investments. In their early days, all ETFs reflected indexes (a basket of stocks chosen to represent the performance of a large group of traded companies, such as the TSX, the Dow and the Standard & Poor's 500.) This is still true of the majority of ETFs. But today, there are also many funds that reflect indexes but also use algorithms to lower volatility or aim for other desirable outcomes, such as higher income or less of a particular type of company.

WHAT'S THE ADVANTAGE?

1. **COST.** Because most ETFs still reflect an index, you're not paying anyone to figure out which companies are going to do well. Instead, you invest in all of the companies in a sector or region. In efficient markets, you capture the returns of the whole sector or region without having to pay the salaries of money managers and their research assistants.
2. **TAX EFFICIENCY.** Because of their structure and the way they're bought and sold, ETFs offer a number of tax advantages. Don't take our word for it – ask your accountant.
3. **LIQUIDITY.** Traditional mutual funds are redeemed once each day, so if you put in your order to sell in the morning, you'll have to wait until the end of the day to find out what your units sold for. ETFs trade anytime the stock market is open.
4. **CHOICE.** There are ETFs that reflect any segment or region of the market you can think of.

WHAT'S A ROBO-ADVISER?

Robo-advisers are companies that leverage technology to make ETF investing dead simple, low cost and appropriate for each individual investor, based on their goals. Download an app and go. And if you get stuck, there is a portfolio manager to help, so you're not completely on your own.

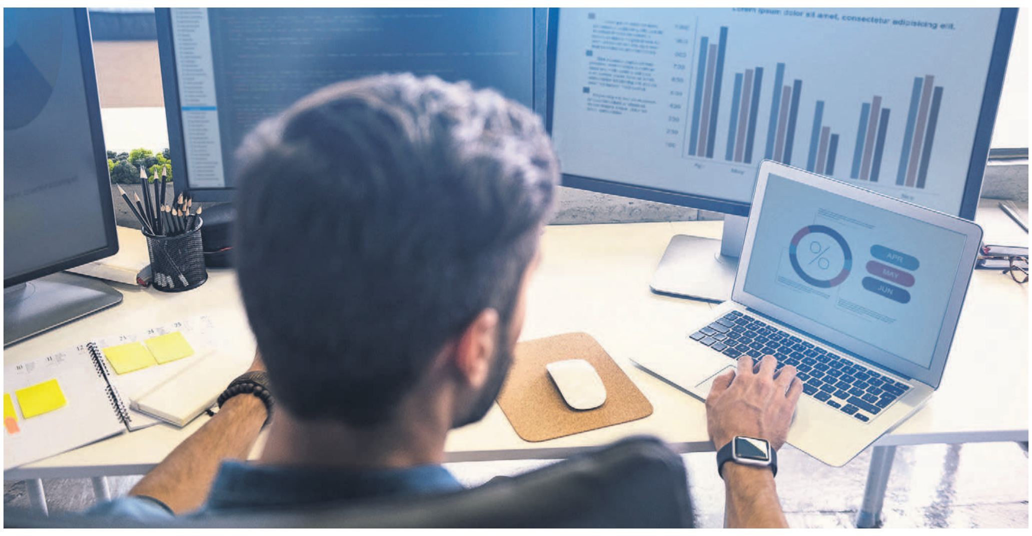
WHAT'S INSIDE: **LANDMINE OR GOLDMINE?:** For cannabis investors, it depends on affordable diversification. **ETF2**

RESPONDING TO MARKET CONDITION WITH ACTIVELY MANAGED FIXED-INCOME ETFS

Passive fixed-income ETF investing has long been counted on to offer steady returns at low cost, with inherently less risk. But rising interest rates and uncertainty in the global economy are bringing complexity to this passive approach and affecting its ability to generate yield.

Active management can help achieve fixed-income goals and objectives in this turbulent environment, says Ahmed Farooq, vice-president of ETF business development at Franklin Templeton Investments. Actively managed fixed-income ETFs are growing vastly in popularity, he notes, and bringing results that justify these rising numbers.

"Fixed income is no longer the part of your portfolio that you can leave alone and walk away," Mr. Farooq says. Fixed-income investments have been traditionally considered a "safe haven," he says; however, with rate hikes and geopolitical turbulence, they may expose investors to unintended risks and have "started becoming a thorn in the backs of advisers," who are looking for alternatives.



Experts believe that fixed income is no longer the part of your portfolio that you can leave alone, due to rising interest rates and uncertainty in the global economy. ISTOCK.COM

Franklin Templeton offers four actively managed ETFs, including its FLGA - Franklin Liberty Global Aggregate Bond ETF (CAD-Hedged), which was launched last May and today has $360-million in assets and growing. These products have management fees of 0.35 to 0.45 per cent, comparable to passive fixed-income ETFs, and are backed by solid portfolio managers with long track records and high ratings.

Mr. Farooq says the problems with passive funds, which measure

See FIXED-INCOME on ETF2