

## **Diamonds and Spiders and Bonds, Oh My!**

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When considering investments for your portfolio, don't overlook exchange-traded funds, otherwise known as ETFs. The official name for an exchange-traded fund is "closed-end fund" because unlike a mutual fund there are a finite number of shares that are available for sale, just like the stock of a company. Also, just like a stock, if you want to buy an ETF you must purchase it within a brokerage account, while the stock market is open. Although ETFs trade like stocks, they provide the diversity of a mutual fund, because they are made up of a diversified portfolio of stocks or bonds. So although you are buying one stock, when you buy an ETF, you are getting the combined performance of all the stocks or bonds in the portfolio.

One of the more popular ETFs is the Nasdaq 100 that trades under the symbol QQQ. It represents the 100 largest companies on Nasdaq, from companies like Intel (INTC) to Bed Bath and Beyond (BBBY). Those who trade QQQ have their own slang and refer to it as "the cube" or "the Q's". In fact it's so popular among traders that, according to Yahoo Finance, the average volume is 110 million shares per day. That's a lot of shares when you compare it to General Electric, which only averages 29 million shares a day. If you want to invest in the Dow Jones Industrial Average you can purchase its ETF that trades under the symbol DIA also known as "the diamonds." The Standard and Poor's 500 Index trades under the symbol SPY and is commonly referred to as the "the spiders."

A nice feature of most ETF's is their low internal expense rates. According to [www.indexfunds.com](http://www.indexfunds.com) their internal expenses run from roughly .09 to .25 of 1%. This similar, if not slightly less, than what you pay inside the typical index mutual fund, and is quite a bit less than what you pay inside an actively managed mutual fund.

Next to my desk I keep a list of 108 different ETFs that trade on the stock market. I am sure there are more available than are on my list, but 108 are enough for me to worry about. With this list I can invest in the stock market of 22 different countries, over 17 different industry sectors (like energy or biotechnology), and all 9 different asset classes in the US stock market (such as small value or large growth). Finally, in the past couple of years more and more bond ETF's have become available. If you would like a copy of this list you can e-mail me at [laif@financialhealth.com](mailto:laif@financialhealth.com) and I will send you one, but you must have Adobe reader to open the file.

Your first thought might be, "why would I want the additional hassle?" Not many understand this, but most mutual funds are only priced at the end of the day when the market closes. No matter what time of day you put your order in to buy or sell you are guaranteed to get the price at the end of the day. So if you are worried about getting into or out of your investment during an extremely volatile day, an ETF can give you back some control where a standard mutual fund can not. When would you want such a feature? Let's say you buy your ETF at \$25 dollars a share and you decide that you can't afford to take more than a 10% loss on your money. So you tell the brokerage company you work with to place a sale stop on your fund at \$22.50. Now if the fund should fall in the middle of the day to \$22.50, your order will be executed and you will get the next price available. It doesn't guarantee that you will get \$22.50 as your sale price, but your shares

will be sold, sooner rather than later. So the next time you are reviewing your portfolio and want to regain some control over your investments and consider something new, consider ETFs.