Introduction

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ETFs are known by a variety of sometimes quirky names — Spiders, Diamonds, OPALs, WEBS (now iShares), Qubes, VIPERs, HOLDRs and streetTracks are just a few. ETFs are a simple, low cost and flexible way to access the potential rewards of market segments. In essence, it brings important advantage in combining index diversification with the flexibility of trading shares. The market growth continued rapidly despite the disappointing investment climate between 2000 and 2003. Therefore ETFs are regarded as the hottest investment product of the new century.

Performance and fees have been the rationale behind index investing for years. In accordance to many investigations only a few actively managed portfolios outperform the broad market over the long run. That's enough to make investors think twice about paying high fees or pricey sales loads for a fund manager's supposed expertise.

Like conventional index investments, ETFs allow investors to be as active or passive as they wish. Entire portfolios can be built using plain-vanilla index ETFs that offer broad exposure to stocks and bonds. Further, investors might instead choose to cobble together portfolios based on a dozen or more sector ETFs. Unlike traditional index funds, ETFs can be bought and sold throughout the trading day at intraday prices, rather than based on a fund's net asset value at a given day and time. ETFs are an evolutionary advance, bringing institutional-quality products to all investors.

In recent years, these unique features and benefits have helped exchange traded funds explode in popularity and emerge as one of the most flexible, multi-purpose investment vehicles available. Ever since the American Stock Exchange pioneered the concept of a tradable basket of stocks with the creation of the Standard & Poor's Depositary Receipt (SPDR) in 1993, exchange traded funds have evolved into an entirely new investment cate-

gory. Today, the number of ETFs listed and traded in the US has grown to more than 150 and continues to grow — not only in the number of products and their variety — but also in terms of assets and market value. Currently, there are about 30 ETF managers in more than 25 countries with listings on almost 30 exchanges.

The U.S. Securities and Exchange Commission defines ETFs as “a type of investment company, whose investment objective is to achieve the same return as a particular market index”. An ETF is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index. An ETF will invest in either all of the securities or a representative sample of the securities included in the index. For example, one type of ETF, known as Spiders or SPDRs, invests in all of the stocks contained in the S&P 500 Composite Stock Price Index.

Typically ETFs are issued for institutions in large blocks, known as “Creation Units”. Payments do not use cash but baskets of securities that generally mirror the ETF portfolio. Creation Units are often split up and sold to individual investors, who are willing to buy shares on a secondary market. Further it is possible to redeem a Creation Unit back to the ETF by giving investors the securities that comprise the portfolio instead of cash. *Ref.: http://www.sec.gov/answers/etf.htm*

Each ETF is a basket of securities that is designed to generally track an index — broad stock or bond market, stock industry sector, or international stock — yet trades like a single stock. The unique combination of many of the best features of other investments presents financial opportunities for both individual and institutional investors, including:

- a wide array of investment strategies
- all day tracking and trading
- buying and selling flexibility
- cash management
- core investment
- dividend opportunities
- diversification