



TED

TLC

The innovation of Exchange Traded Funds (ETFs) over the past 20 plus years has revolutionized how many investors access markets, but the benefits are still unclear to many people. With that in mind, the below acronym TED ♥ TLC is meant to simply summarize what people should be looking for in a fun way. Readers should not take this as an investment recommendation at all, but read the commentary for educational purposes. A more detailed report will follow.

TED stands for:

- **Transparency** = Most ETFs are fully transparent including [Intraday pricing \(INAV\)](#) & holdings.
- **Ease of Use** = ETFs Trade like a stocks and are listed on a major exchange; NYSE, Nasdaq & BATS.
- **Diversification** = Most ETFs are diversified so the risk is about the sector, asset class or a group's trend.

TLC stands for:

- **Tax Efficiency** = Internal capital gains are generally not passed along to investors.
- **Liquidity** = Trading volume of the underlying securities is the best metrics of an ETF liquidity.
- **Cost** = Fees are mostly set as a percentage of assets under management (AUM) and are generally low

Transparency is a quality that should never be taken for granted and most often answers the question of why something is working or not working! Paraphrasing Socrates “Know Thyself!” – I say “know what you own!” The transparency that is provided in the ETF market is unparalleled compared to most investments. Investors who want to “set it and forget it” and hope for a positive outcome may not care about transparency until they look back, but as a tactical investor this “T” in my acronym is first for a reason. Most ETFs provide transparency into what is owned by the ETF. How an ETF is priced almost on a real time basis arguably provides price discovery for investors looking at a Bid/Ask spread on the ETF. (Every 15 seconds INAV is repriced.) Digging deeper into disclosures investors can also figure out how the investment methodology works and what additional costs might exist.

The Ease of use for buying and selling an ETFs is like buying a stock because ETFs trade in the same manner. The ETF culture is very much about the democratization of providing investment solutions to anyone. Owning a basket of securities based upon an index that is aligned with an asset class, sector or industry make it convenient an investor to capitalize on an investment thesis. Investment size does not really matter. However, people should know that access is a right and not all ETFs are simple.



Diversification comes easy, but buying the entire stock market will result in the risk associated with that basket of securities. Put differently, stocks go up and down with various factors and diversification lowers the risk associated with what is happening at the company level. However, owning an index with 500 companies may lower the individual company risk, but all investors should appreciate that sectors and asset allocations within the index are important drivers of return.

The **Tax efficiency** that most ETFs provide has been a core driver of the success of the ETF market as an investment tool. The net investment return after fees and taxes is always the best measure of an investor's success and most ETFs, unlike mutual funds, allow investors to defer the internal capital appreciation because of the structure of an ETF. (ETFs that are structurally more complicated may not be completely tax efficient.)

Liquidity is not just about how an ETF trades. In fact liquidity is mostly about the underlying securities that are owned by the ETF. ETFs that do not trade arguably are just as liquid as the ETFs that trade billions of dollars a day. Similarly, some ETFs may have hundreds of millions of dollars in AUMs, but only trade thousands of dollars each day.

The above statements are opinions written by Dan Weiskopf and not those of IPI Wealth Management or Investment Planners. Access ETF Solutions owns the index, the Restaurant Leaders INDXX index. The USCF Restaurant Leaders ETF (MENU) using this index as its benchmark. The INAV IS NOT A SECURITY.

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Disclosure:

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