

## Surge in exchange-traded fund offerings

**W**ith Canaccord Wealth Management launching its line of exchange-traded fund (ETF) portfolios, the world of exchange-traded funds just got bigger.

Nor is the growth coming just from Canaccord, with the Bank of Montreal introducing 13 ETFs in 2009, and Invesco Trimark teaming up with ETF provider PowerShares to create mutual funds, called PowerShares Funds, that include ETFs.

That's a long way from the early 1990s when the Toronto Stock Exchange created the first ETFs—cutely named TIPs and HIPs—that allowed investors to buy shares of companies listed on the exchange's composite indexes, the TSE 35 and the TSE 100.

What was great about ETFs were the fees. By tracking an index the funds didn't have to be actively managed, unlike mutual funds that use a team of analysts to pick stocks.

So while TIPs and HIPs no longer exist, their close cousin, the iShares Canadian LargeCap 60 Index Fund, has a management expense ratio (MER) of 17 basis points, or .17 per cent. The MER for Canadian equity mutual funds can reach 2.5 per cent and beyond.

High MERs often get buried in good years as investors continue to make money, but bad years like 2008 and 2009 have more people taking notice. That means more people are noticing ETFs.

Today there are more than 2,500 ETFs around the world, according to Bloomberg. Three years ago there were less than 1,000.

With so many ETFs available, now was the time to launch Canaccord's ETF portfolios, said Tanya Bird, Canaccord's senior vice-president, product and services.

Canaccord has worked with partner Rogerscasey Canada to develop five different ETF baskets, each holding between 10 to 15 ETFs, that are sold to

clients depending on their investment profile.

By designing ETF bundles "we're taking that decision-making and complexity around the individual securities off of their [advisers'and clients'] hands," Bird said.

Hahn Investment Stewards have been building ETF-only portfolios since 2003, the longest track record in the world, its Kelowna-based chief investment officer Wilfred Hahn said in an interview.

"So others in the industry are finally seeing the light," he said.

Hahn set up the company after running a large bank's global investment operations. After spending years believing he could pick stocks, he decided there had to be a better way to build efficient portfolios. Picking stocks individually, which takes time and research, can be expensive, Hahn said. Moreover, it doesn't always lead to better results.

By limiting clients' investments to ETFs, the decision-making is simpler, he said. Because rather than deciding whether to invest in Ford or General Motors, the decision is whether to be in the auto industry -- and that's the important decision.

"Research has shown over the years if you are going to manage money the most material decisions are the asset-mix type decisions," and not the individual stock decisions, Hahn said.

Now with the variety of ETFs available "everything I could do as a global portfolio manager I can do cheaper and better utilizing ETFs," Hahn said.

But with the flurry of new ETFs comes increased complexity. Now rather than being based on an existing index, companies are adding twists like changing the weightings in an index or adding leverage--borrowing money to increase the amount invested, and increasing the investor's exposure to both gains and losses.

There are now even actively-managed ETFs, like Horizons AlphaPro Managed

S&P/TSX 60 which invests in securities included in the S&P/TSX 60, but at levels the fund determines, which could include holding the entire portfolio in cash.

The more the funds are actively managed, the more they start looking like mutual funds.

Hahn believes that might be next: actively managed funds that look like mutual funds in every way but are set up as ETFs that can be traded on an exchange (mutual funds can only be bought from and sold to the mutual fund company).

But the more management involved, and the more complicated or exotic the ETF, the higher the fee is going to be, said Garth Rustand, the founder and executive director of Investors-Aid Cooperative.

Adding advisers, like Canaccord and Hahn Investment Stewards, increases the fees as well, he said.

In the case of Canaccord the fee varies from one to two per cent of the value of the assets held in addition to the MER of the ETFs, Bird said. Hahn Investment Stewards charges between 25 and 80 basis points, depending on the size of the portfolio, but since their portfolios can only be bought through another adviser there may be fees there too, Hahn said.

Rustand believes that the higher fees for more complicated ETFs don't guarantee better results.

"There's no proof out there that any of these management techniques will work over the long haul," Rustand said. "In other words over the long term you still don't have any meaningful out-performance of a plain generic benchmark."

Mutual funds are proof of that with only four out of 57 Canadian equity funds with 15-year histories beating the S&P/TSX 60, Rustand said.

In Rustand's opinion, "plain and simple works best."

*fionaanderson@vancouversun.com*

© Copyright (c) The Vancouver Sun