Exchange Traded Funds

Exchange Traded Funds (ETFs) are quickly becoming an alternative to mutual funds.
Courtesy of Securities America

Exchange Traded Funds (ETFs), have quickly become one of the most popular ways for Americans to reach their financial goals. While they've existed in some form or another since 1993, lately ETFs have been given a great deal of attention from both Wall Street *and* Main Street.

So what do ETFs offer that other investment vehicles don't?

ETFs are unique in many ways and present a variety of benefits compared to other traditional investment vehicles. With that innovation and uniqueness comes a new type of disadvantage as well. ETFs are basically a group of securities that track highly recognized indexes. They are similar to indexed mutual funds in that they offer shares in a professionally managed diversified portfolio of stocks or bonds. What sets them apart from mutual funds is that ETFs are traded much like stocks. Rather than transactions occurring at the close of the market, ETFs are traded all day long. Their price is determined by the supply and demand.

Two of the biggest pluses that ETFs offer are diversification and variety. ETFs offer you a way to keep your investments diversified across a broad range of markets and asset classes. From ETFs that mirror the major indexes, to certain sectors, niche markets, and even specific countries, ETFs allow you to select an area or industry you may be interested in investing, and saves you the hassle of purchasing stocks individually. ETFs also make it easier to allocate assets into select groups. Specialized ETFs exist that can be used to support allocation targets for stock and bond mix in their portfolios, easily making diversification one of the biggest pluses to investing in ETFs. Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn't guarantee a profit, it may be able to reduce the volatility of your portfolio.

While they aren't the best idea for someone who regularly invests a small amount of money, ETFs may be suitable for someone with a large lump sum to invest. They tend to offer greater tax benefits than most mutual funds. Market trades have no effect on an ETF itself as no cash enters or exits the fund. Taxes are still paid at the point of sale of all underlying securities at the investor's cost basis, but not the fund's cost basis or at the expense of other invested individuals.
ETFs occasionally distribute capital gains and dividends, but usually less often than other investments which means less tax consequences for the investor.

Of course, ETF's do involve certain risks that should be carefully considered before investing. These risks include but are not limited to: market risk, sector risk, as well as global and economic developments. One should also consider the trading expenses associated with investing in ETF's.

As ETFs grow in popularity, so will the types of funds offered. No investment is perfect, but ETFs offer a broad range of benefits. They're easy to trade, they offer diversification and depending on your situation, they might just be an attractive alternative to mutual funds and other investments.

About Securities America

Securities America Financial Corporation is a financial services holding company. Our financial representatives provide investment and financial planning services including securities and insurance brokerage, as well as asset management. Think of Securities America as the behind-the-scenes support for your financial representative. Through our extensive technology, compliance and operational support, our representatives can more readily provide comprehensive and professional service to you, their client.

Securities America currently supports over 1,900 talented and well-respected financial representatives with nearly 1,400 offices across the United States. We are the 5th largest Independent Broker/Dealer (According to *Financial Planning Magazine's* Broker/Dealer Survey, 6/09) with our representatives investing over $41 billion for over 503,000 customers nationwide (as of 11/09). Securities America's mission is to foster the success of financial professionals so they can provide quality, objective financial advice and services to their clients.

About The Securities America Companies

Securities America Financial Corporation

Headquartered in Omaha, Nebraska, Securities America Financial Corporation (SAFC) is the holding company for Securities America, Inc. and Securities America Advisors, Inc. SAFC is a wholly owned subsidiary of Ameriprise Financial, Inc.

Securities America, Inc.

Our 425 employees provide dedicated support to our 1,900 financial representatives. All customer brokerage accounts at Securities America, Inc. are carried by National Financial Services, LLC ("NFS"), a Fidelity Investments Company, or by Pershing, LLC, ("Pershing") a subsidiary of The Bank of New York Company, Inc. Investments carried by both NFS and Pershing are protected in accordance with the Securities Investor Protection Corporation ("SIPC") up to $500,000 (including cash claims limited to $100,000). An explanatory brochure is available at SIPC.org. Both companies have arranged additional protection for cash and securities to supplement its SIPC coverage. This additional coverage provided through Lloyd's of London will protect assets up to an overall aggregate level of $1 billion for assets in custody at the clearing firm including $1.9 million cash. Neither coverage protects against a decline in the market value of securities. Securities America, Inc. also serves as the corporate agency for the distribution of insurance products. Through this agency, Securities America provides its representatives with a complete line of insurance, annuity and ancillary products.

Choose from term, universal and traditional life products, as well as a full range of disability, long-term care and health coverage products.

Securities America Advisors, Inc.

Securities America Advisors, Inc. is a Securities and Exchange Commission Registered Investment Advisor. With over $13 billion (as of 11/09) of assets under management and administration, Securities America Advisors, Inc. provides investment management, financial advice, and financial planning through advisors nationwide. Working closely with Securities America Advisors, you and your financial advisor can develop a personalized investment program. Whether you are looking for turnkey solutions or something customized to your unique situation, Securities America Advisors is there to help your advisor meet your needs. We offer you flexibility and expert support, but you and your advisor remain in control of your financial choices.