

# Business

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## ETF growth reaches another milestone

**W**hen I wrote "ETF Trading Strategies Revealed" in 2006 I said that ETFs would become a household name and explode in popularity.

That's happening. There are now 1,488 ETFs with assets totaling \$2.1 trillion. Asset flows into ETFs already exceed those into mutual funds, and now ETF growth has reached another milestone: Assets in ex-



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change-traded products now match total hedge fund assets.

Money is flowing into ETFs because of their

low fees, strong performance, and unique characteristics.

Hedge fund fees are typically "2 and 20." That means two percent of assets and 20 percent of yearly profits. A fund manager must be extremely good to offset those high fees.

Most haven't been. S&P 500 index ETFs, along with their extraordinarily low fees, have performed better.

Another reason is that ETFs are starting to employ strategies that were previously limited to hedge fund managers and futures traders.

The ETF with the largest recent inflows provides a good example. Through dollar hedging, The Wisdom Tree Europe Hedged Equity (HEDJ) allows investors to own European equities without currency exchange exposure.

Some hedge funds attempt to limit downside movement by trading the Volatility Index (VIX).

Last Tuesday the AccuShares Spot VIX Up Shares (VXUP) and Spot VIX Down Shares (VXDN) began trading; they allow investors to place positions in a rising or falling VIX.

There are other exotic ETFs that employ hedging strategies such as long/short, market neutral, currency carry, and merger arbitrage.

Then there are ETFs that attempt to mimic hedge funds. AlphaClone Alternative Alpha (ALFA) and Global X Top Guru Index (GURU) attempt to track the biggest holdings in the better-performing hedge funds.

Keep in mind the published holdings come with a four month delay.

Hedge funds are considered to be solely for rich investors and are known for their exotic investment strategies. Times have changed, and there is an undeniable shift toward lower costs and passive investing.

And some ETFs look more like exotic hedge funds than they do passive index investing. Bottom line: for all those reasons ETFs will continue to gain in popularity.

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