

Question: In a recent column you mentioned an investment called an ETF. I've never heard of this before. Can you explain what it is?

Answer: Absolutely!

ETF is an acronym for a mutual fund-like investment called an exchange-traded fund. It's similar to a mutual fund in that it holds a basket of stocks or bonds, and it can give you an investment with dozens or hundreds of different securities. However, unlike mutual funds which are usually only priced once a day at the end of the trading day, exchange-traded funds can be bought and sold throughout the day, like an individual stock or bond.

Another big appeal of ETFs is their low cost structure. Because ETFs are passively managed, meaning they tend to track a particular index or benchmark, annual management fees are minimal. Exchange-traded funds are also considered more tax efficient than most mutual funds because there is little portfolio turnover (buying/selling of additional securities). If you hold money outside of a retirement account such as an IRA, this tax efficiency could boost your returns over time and potentially add thousands or tens of thousands of extra dollars to your portfolio.

Exchange-traded funds can follow broad market benchmarks such as the S&P 500 or NASDAQ, or they can mirror specific countries or sectors. A quick internet search on Google brought up ETFs for China and Russia, as well natural resources, aerospace and defense, and commodities.

One final comment: ETFs disclose their exact holdings on a daily basis so you can monitor what you own and what you're paying for. This transparency is one reason I advocate using them for at least a part of my private clients portfolios.

Bill's Bottom-line: To learn more about exchange-traded funds, visit your local library, pick up a financial magazine or visit www.ishares.com or www.vanguard.com.



Bill Losey, CFP®, CSA, "America's Retirement Strategist", has nearly 20 years experience in the financial planning industry and has been interviewed on the CBS Radio Network, CNNfn, and FOX's "Hannity & Colmes". Bill publishes *Retirement Intelligence™*, a free award-winning weekly newsletter that reaches over 5,000 subscribers worldwide. His book, ***Retire in a Weekend! The Baby Boomer's Guide to Making Work Optional*** will be released in November 2007. Bill can be reached online at www.MyRetirementSuccess.com or by calling 1-866-786-2521.