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**Richard P. Slaughter Associates Inc.**

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“What are the **hidden expenses** of **ETFs** costing you?”

By Darby Armont

Exchange-traded funds, generally referred to as ETFs, have exploded in popularity. The investment vehicle first appeared in the 1980s, but has come into its own in the last decade, attracting investors who have since poured more than \$1 trillion into exchange-traded funds and notes.

ETFs' many positive features explain why investors are increasingly drawn to these products. They provide rock-bottom expenses, a growing menu of choices, a transparency of holdings, low tax implications and the ability to trade intraday and to short.

However, before you call your money manager, you need to be aware that exchange-traded products also have some hidden costs.

Bid-ask spread. The bid-ask spread when trading ETFs is a major source of hidden fees. As with stocks, ETFs are subject to supply and demand for shares. Highly liquid ETFs will have a tighter spread than thinly traded funds. Depending on the liquidity of the ETF and its underlying securities, some investors may pay 60 to 70 basis points plus a trading commission, which can be more expensive than simply buying a mutual fund.

Reduced performance costs. Investors also may experience hidden costs through reduced performance. ETFs can lag the index they are supposed to

track because of expenses and constrained trading. ETFs further may face regulatory constraints that prohibit them from holding large positions in stocks even if their proportion in the index is high.

Rebate costs. Rebates paid to the custodian or broker may reduce performance. Brokers may receive rebates by the authorized participant (a broker who facilitates ETF trading) as an incentive to execute the order. Even if you are not paying a commission to your broker on certain ETF trades, rest assured that brokers are receiving compensation, sometimes at the expense of best trade execution.

The upshot? If you are now reconsidering ETFs, hold on. There are ways to improve ETF transactions.

Avoid market orders. Never buy or sell shares using a market order. Instead, enter ETF purchases as limit orders below the ask price, and enter ETF sales as limit orders above the bid price. If you are worried about the market declining, use a stop limit order, not a stop loss order. If the ETF breaches the stop loss price, it turns into a market order. The intraday indicative value will give you an idea of what the underlying stocks in the fund are worth to help you determine your limit price.

Timing trades. Never trade in the first hour. Spreads are often highest at

market open when authorized participants price shares as the underlying stocks start trading.

Never trade in the last hour of the trading day, either. Spreads also increase toward the end of sessions because of the influx of retail investors placing market orders. And as authorized participants start to wrap up their daily books, they tend to be hesitant to fill large orders.

Gauge volatility. Never trade during periods with increased volatility. Bid-ask spreads and divergence from net asset value tend to widen at such times, as authorized participants try to keep pace and, in many cases, look for opportunities to make money off nervous retail investors placing market orders.

Think globally. Never forget about international factors. Worldwide trading hours must be taken into account for ETFs that invest in foreign equities, bonds or currencies. If an international market is closed and news breaks domestically, a premium or discount to net asset value on foreign ETFs may develop. Try to trade during overlapping business hours.

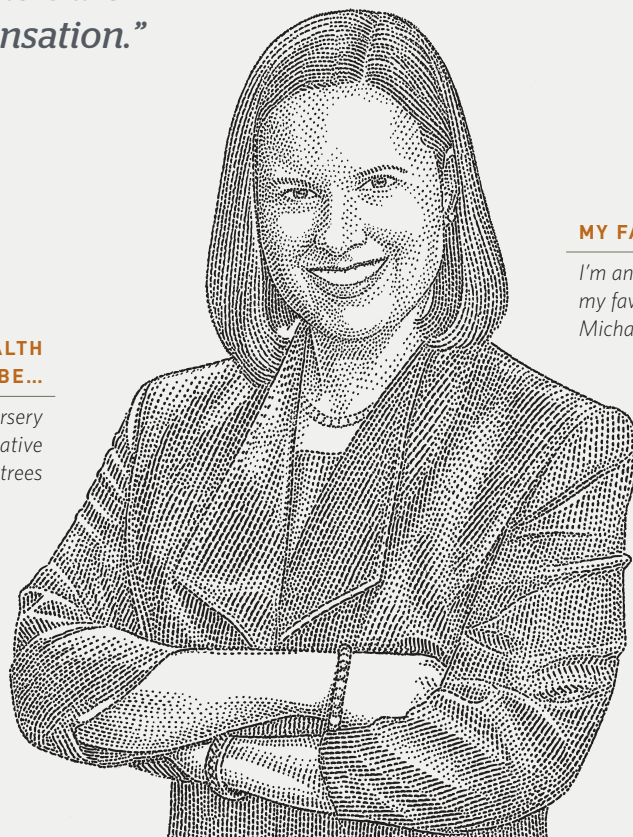
By being aware of ETFs' hidden costs, you can avoid paying them and, with the help of your personal financial advisor, can make ETFs a profitable part of your portfolio. ☺

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—Darby Armont

How to reach **Richard P. Slaughter Associates Inc.**

You can reach any member of our team at 512.918.0000.
We look forward to speaking with you.



IF I WEREN'T A WEALTH ADVISOR, I'D BE...

The owner of a nursery specializing in native plants and trees

MY FAVORITE AUTHORS...

I'm an avid mystery reader and my favorite authors are Lee Child, Michael Connelly and Laura Lippman.

WHAT MAKES A GOOD WEALTH ADVISOR...

The ability to communicate a complex financial plan in a meaningful and actionable way

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Richard P. Slaughter Associates is a leading wealth management and financial planning firm, which specializes in working with high net worth individuals, families and businesses. Slaughter Associates cultivates a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management and by coordinating with tax, insurance and estate professionals. The result is a holistic approach, unique in a financial industry that is often segmented and outsourced. By committing to each of these important components, Slaughter Associates charts a path to reach the individual financial goals of its clients. Founded in 1991 in Austin, Texas, by Richard P. Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by the National Association of Board Certified Advisory Practices as a Premier Advisor and has been given Exemplary status for expertise in personal risk management.

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\$300 million

Largest Client Net Worth
\$20 million

Minimum Fee for Initial Meeting
None required

Minimum Asset Requirement
\$500,000 (investment services)

Website www.slaughterinvest.com

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