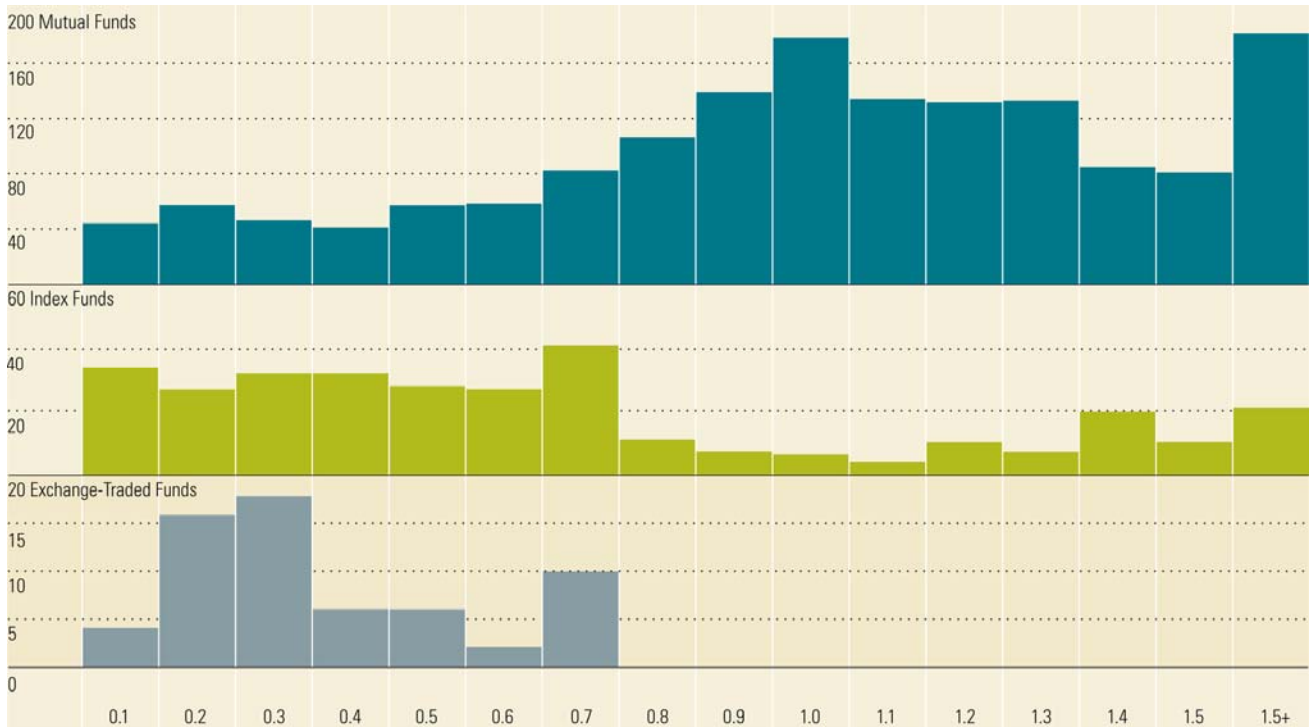


The ETF Evolution



The investment industry is poised for an awakening

Expense ratio comparison of large-cap mutual funds, index funds, and ETFs



New investments can often be confusing

Exchange-traded funds, or ETFs as they are commonly known, are taking the investment industry by storm. ETFs have been in the headlines because of their explosive growth and promising future. With all this visibility, however, many remain confused and uncertain.

ETFs are investment portfolios that trade like stocks on an exchange. Every ETF contains a collection of securities that are designed to mimic a specific index (ex: S&P 500®). Although this sounds similar to a mutual fund, ETFs are different. Unlike mutual funds, which maintain cash reserves to meet redemptions, ETFs are nearly fully invested. In addition, most ETFs are required to maintain a 99% correlation to their index and thus disclose and publish portfolio holdings daily. Perhaps most appealing to investors is the low-cost and tax-efficient set-up of these products.

ETFs can serve as a low expense alternative

The image illustrates the distribution of expense ratios for large-cap mutual funds, index funds, and ETFs. ETFs typically have lower expense ratios when compared to traditional mutual funds and index funds. The average expense ratio for large-cap ETFs is about 0.35% compared to 0.66% and 1.1% for large-cap index and mutual funds respectively. The lower costs are typically attributed to lower premiums unlike actively managed funds which charge higher premiums for fund manager expertise in picking investments.

ETFs are an innovative tool that can help investors reach their goals in a variety of ways. Use them to manage risk, taxes, style and asset allocation. But remember that these investment tools come with unique risks as well. Be sure to consult your financial professional for more information.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Investors in exchange-traded funds may face many different forms of risk depending on the kinds of ETF investments they choose. While the benefits of diversification from ETFs may lower the downside risk of a single security, it is important to understand that the value of an ETF may decline due to factors affecting the underlying index.

Source: Expense ratio data is from Morningstar's open-end database. ETF and index fund expense ratios are from the domestic large-cap ETF and domestic large-cap index fund categories, respectively. Mutual fund expense ratios are from the domestic large-cap mutual fund category. It is important to note that the data herein does not account for brokerage/transaction costs, only expense ratios. All data is as of July 31st, 2007.