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The Right Way to Invest

COMMON MISCONCEPTIONS ABOUT NEW ETFs

Featuring
David Mazza
Head of Beta Solutions Investment Marketing and ETF Specialists

Exchange-traded funds (ETFs) have grown rapidly since their introduction in 1993. As of late April, roughly 2,000 U.S.-listed ETFs held almost $3 trillion of investments and over 50 new funds launched during the year's first four months[1].

Despite ETFs' growth and popularity, some investors still have questions about investing in new funds. David Mazza, Head of Beta Solutions Investment Marketing and ETF Specialists, recently addressed common misconceptions.

New ETFs lack track records so you can't judge their performance.

Reality: ETFs are transparent: You can see your holdings each day and you can see how a new ETF will be constructed. Though you don't have historical returns, you can look at the new fund's holdings, its sector breakdown and the breakdown by country in a global or international ETF. If the fund uses a new investment approach like Smart Beta, these insights help you understand how the ETF will differ from a broad-based, market-cap weighted index.

New ETFs have higher expense ratios.

Reality: One possible reason for this misconception is that some new ETFs use investment strategies that go beyond pure market-cap weighted, passive portfolios designed to track the S&P 500 or the MSCI EAFE, for example. Instead, these funds take an active management or Smart Beta approach, which may require a slight premium to achieve a specific investment outcome. Regardless of the strategy, we encourage ETF investors to review the total cost of ownership, which includes expense ratios, bid-ask spreads and premiums and discounts. Also consider whether the fund's strategy potentially adds sufficient value and diversification to your portfolio to justify any higher costs.

New ETFs trade with wider bid-ask spreads.

Reality: New funds often have lower trading volumes than more established ETFs. That can cause slightly wider bid-ask spreads initially, but those spreads typically narrow as the fund grows. But don't let a wider spread deter you from investing in a new fund because it can still reduce your overall investment costs. For instance, high-yield bonds are often expensive to buy and sell directly, but you can trade a high-yield ETF for two to three basis points and have the benefit of an immediately diversified portfolio. One strategy to consider is using limit orders for more control over price and trading costs in volatile markets.

New ETFs have a higher risk of closure.

Reality: A fund's success is not guaranteed, so it's important to evaluate the fund's sponsor: Is it a well-established financial services firm or is it a smaller organization that might lack adequate resources to support the fund while it grows? New ETFs need sufficient time to attract assets. At OppenheimerFunds, we think about funds' prospects in terms of a three- to five-year business cycle and don't focus solely on quarterly results.

Learn how we challenge old thinking by visiting **challengetheindex.com/etfs**.

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1 "What US ETF Market Looks Like Today' by Cinthia Murphy. ETF.com, April 13, 2017.