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Listen to Casey and how he uses Coca Cola to explain ETFs to his clients

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Casey earned a Bachelor of Science Degree with a major in Finance from Berry College, Rome, Georgia and earned his Series 7 and 66 while employed with a financial firm in Atlanta. Unhappy with the brokerage product pushing agenda, Casey became a Registered Investment Advisor and formed CT Smith Financial Services in June 2001, which later became Wiser Wealth Management, to better reflect the firm's service offerings. Casey has earned the Master of Estate Preservation designation and has attended the National Tax Training school in order to better manage his clients wealth.

ETFs Asia: From the viewpoint of an investor, what do you see as the prospects of ETF markets?
Here in the US ETF's have gained the attention of advisors, especially those that are fee only. We are also starting to see individual investors use ETFs on their own. However, ETFs are still relatively new to the market. Currently in the US there are 1000+ ETFs with over 1 Trillion in assets under management. I believe that many investors are seeking transparency and predictability in their investing. ETFs provide daily transparency and because they track indices, performance is predictable. Portfolio managers can build portfolios more efficiently by using ETFs to capture global asset classes. The next wave of ETFs will have active management strategies to them. It remains to be if these will capture as much market share as the passive ETFs, but without a doubt ETFs are here to stay.

ETFs Asia: With a long experience of investing in ETFs at Wiser Wealth Management, how do you explain ETFs to your clients?
Our firm is located near Atlanta, GA, the birthplace and home of Coca Cola. I use a scenario with a little humor to explain company risk and the importance of diversification to our clients. It goes as follows: If you invested $1 in Coca Cola and the "evil" people at Pepsi infiltrated Coke and poisoned the syrup, now all the people who drank Coke died, how much would your stock be worth? Zero! This is called company risk. We want to diversify away from company risk. We can do this by investing in a lot of different cola stocks or by hiring a fund manager through a mutual fund. A mutual fund is where they pool investors' money together to, in our example, purchase more cola stocks and diversify away from any single company. The mutual fund manager is buying and selling cola stock trying to beat the cola index. Mutual funds work well for diversification but pass unwanted capital gains and high fees to the investor. Mutual funds also are trying to time the markets using active strategies that may work in the short term, but over a long time span has a poor track record after fees. A third way to invest is through an index. If we want to invest in cola stock, we can purchase all the cola stocks through an exchange traded fund. Purchasing most exchange traded funds allows the investor to be exposed to an asset class with very little specific company risk. In a real world example, we can purchase SPY in the US to gain access to the S&P 500. SPY holds all 500 companies on the S&P 500 where a mutual fund manager may only purchase 40 to 60 companies. Today we can index virtually any asset class in the world. With ETFs in a portfolio an investor at any risk tolerance can hold over 3200 stocks, 10,000+ bonds, hard to reach commodities and currency.

We also go over a University of Maryland study that shows only .06% of mutual fund managers beat their assigned index from 1970 to 2007 using risk-adjusted alpha.

ETFs Asia: What challenges do you see associated with researching, investing or trading ETFs?
Researching ETFs is a lot easier than a few years ago. The ETF providers have developed great websites to help investors better understand ETFs. My favorite is ishares. They are the largest provider of ETFs and in my opinion offer a great website with a lot of useful information. Spider University is a great online resource as well. We are also seeing independent ETF research being offered through the internet. ETFDatabase (etfdb.com), ETF Analytics by IndexUniverse (in beta) (indexuniverse.com/analytics), Morningstar.com and Morningstar's professional ETF publications are all examples where ETFs are broken down by analyst. At my firm we do research ourselves as we now have an internal process and rating system that meets our clients needs. We developed this simply because in 2004 there was very little guidance on ETFs outside the ETF providers.

Investing in ETFs is a little different around the world. In the US it can be very efficient, but there are ETFs that have some trading challenges. This should not scare an investor away from investing ETFs but simply understand the weakness and work with the market maker, exchange and or the custodian trading desk to obtain the best pricing. There is a lot of false information about how to trade ETFs. I encourage everyone to get the facts prior to moving large amounts of funds in or out of ETFs.

ETFs Asia: Who do you see as the prospective buyers of ETFs?
What makes ETFs so great is that an individual investor, a government or private pension manager, and a retail portfolio manager all can purchase the same index or strategy through an ETF at the same low cost and all have different reasons for doing so. Initially in the US it was large institutions that purchased ETFs for broad market exposure beginning with the first ETF in 1993, then portfolio managers began using them and by 2010 as ETF offerings increased dramatically, individual investors began taking notice. It should also be noted that index mutual funds pioneered by Vanguard have been widely accepted by individual investors since the 1980's. ETFs in many ways are these same funds with tax efficiency, liquidity and more asset class offerings.

ETFs Asia: What is the difference between ETFs and ETNs? When would you recommend buying ETNs?
http://www.wiserinvestor.com/etfs-vs-etns-you-better-be-careful/ Yes. I would buy ETN's but if there was an ETF that could capture the same asset class as the ETN, then I would go with the ETF to eliminate the credit risk.

ETFs Asia: As a regular speaker in many ETFs events in the U.S as well as in Asia, how do you think the ETF market in the U.S is different from the market in Asia?
The Asia ETFs are spread over 13 different exchanges, which is very similar to Europe. This could create a bit of a trading/liquidity issue compared to the US where most ETFs are on one exchange. As ETFs gain popularity, this will not be an issue. Most ETFs in Asia are simply tracking well-known indices. I believe that this is a very healthy way to grow the Asia ETF industry, just as the US market has developed in such a way. There are other minor differences such as how bid ask spreads are derived, but as a whole the actual ETFs are similar in structure.