

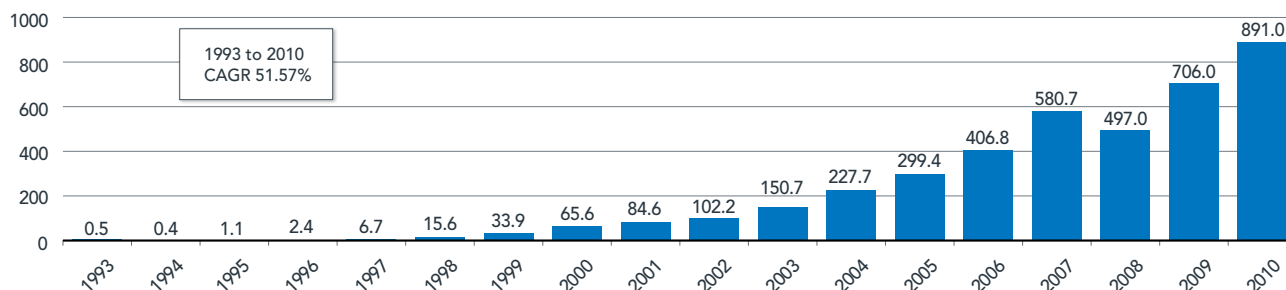
## The Fundamentals of ETFs

Since the first exchange-traded funds (ETFs) were launched in the U.S. in 1993, ETFs have opened a new realm of investment opportunities. They have become more popular as time has passed, and their assets have increased dramatically since the mutual fund trading scandals of 2002-2003.

### WHAT ARE ETFS?

ETFs can be effective tools for both active and passive institutional managers as well as retail investors. There are ETFs for major asset classes such as equities, bonds, currencies and commodities. Equity ETFs are baskets of investments that represent a diversified group of companies (just like mutual funds). The ETF, however, trades like ordinary stocks on a stock exchange throughout the day. Some equity ETFs mirror well-known indexes like the S&P 500 or the Dow Jones Industrial Average, and some track securities specific to a particular industry or country.

### U.S. INDUSTRY ETF ASSETS UNDER MANAGEMENT [ in billions, as of December 31, 2010 ]



Source: Black Rock

### NUMBER OF ETFs

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	1	2	19	19	29	30	81	101	113	117	152	201	343	601	698	772	896

### UNIQUE FEATURES OF ETFs

Compared to mutual funds, ETF expenses are low; ETFs are relatively easy to buy and sell; ETFs are tax-efficient; and ETFs offer tremendous transparency, liquidity and opportunities for diversification.

- + **Low cost:** On average, ETFs charge minimal internal administrative fees compared to their mutual fund counterparts. There are brokerage commissions charged for every purchase and sale, just as you would pay when you buy or sell individual securities.
- + **Transparency:** An ETF's holdings are always known to the market and usually only change when the underlying index does, unlike mutual funds. "You know what you own."
- + **Diversification:** ETFs offer a wide variety of investment possibilities, including the broad U.S. and global markets and specific sectors, regions and countries, as well as the standard asset classes and investment styles. There are also ETFs that track certain specific investments, such as commodities and real estate.

- + **Tax efficiency:** When shareholders buy or sell, they interact with one another on the exchange, just as they would when buying or selling a stock. This means that one investor's selling of shares does not typically create a tax event for the remaining investors in the fund, as it could for traditional mutual funds.<sup>1</sup> This also means that the transaction costs and tax consequences the investor may incur are confined typically to that transaction, just like when you buy and sell shares of any stock you own. A further reason ETFs are tax-efficient is that there is relatively low turnover in the indexes the funds are designed to track, which contrasts with active managers who typically trade their holdings much more frequently.
- + **Intraday Trading:** ETFs can be bought or sold at any time during the trading day, just like stocks. In contrast, mutual funds are priced only at the end of each trading day. However, note that trading volume is not the only source of liquidity for ETFs. Liquidity can also be derived from the underlying basket of securities through the creation/redemption process (shares can be created or redeemed by large institutional investors in exchange for the basket of underlying stocks).<sup>1</sup>

## ETFs VS. MUTUAL FUNDS

ETFs are different from actively managed mutual funds in several respects. For an illustration of the comparison, refer to the table below.

	ETFs	Mutual Funds	ETNs
<b>Fund Expense<sup>2</sup></b>	Lower	Varies	Varies
<b>Holding Transparency</b>	Yes	No	Not Always
<b>Investment Style<sup>3</sup></b>	Typically Passive	Typically Active	Typically Passive
<b>Liquidity</b>	Yes	Yes	Yes
<b>Redemption Fees</b>	None	Sometimes	None
<b>Brokerage Fees</b>	Yes	No	Yes

## ETFs VS. ETNS

Many have confused exchange-traded notes (ETNs) with ETFs. Exchange-traded notes are unsecured debt obligations of their respective issuers and are designed to deliver the return of a particular asset class. ETNs were set up to access hard-to-reach asset classes where owning the underlying investments, as an ETF does, was difficult. ETNs proliferated in the commodity space and also for some currencies and other hard-to-access equity markets. The counterparty risk<sup>4</sup> inherent in ETNs was made clear in 2008. Lehman Brothers issued three commodity-oriented ETNs before the company went bankrupt. The holders of those ETNs had to stand in line with other unsecured creditors of Lehman to get their money back. ETFs, by contrast, are backed by the underlying collateral of the investments inside the fund and do not have such unsecured counterparty risk.

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ETFs and mutual funds are subject to the risk associated with the holdings of their underlying portfolios.

Diversification does not eliminate the risk of experiencing investment losses.

<sup>1</sup> Shares of the WisdomTree Funds can be bought and sold throughout the day through any brokerage account. Shares may only be redeemed directly from the Funds by Authorized Participants in large blocks of 50,000 shares or more.

<sup>2</sup> In some circumstances, an index mutual fund may be subject to lower fund expenses than an ETF.

<sup>3</sup> Investment style defines how the fund is managed, with passive management tracking indexes and active management run by an investment manager.

<sup>4</sup> Counterparty risk: The risk to each party of a contract that the counterparty will not live up to its contractual obligations.

There are risks associated with investing, including the possible loss of principal. Past performance does not guarantee future results. International investing involves special risks, such as currency fluctuation or political uncertainty. Investments in real estate involve additional special risks, such as credit risk, interest rate fluctuations and the effect of varied economic conditions. Funds focusing on a single country, sector and/or smaller companies generally experience greater price volatility.

**Carefully consider the Funds' investment objectives, risks, charges and expenses before investing. A prospectus containing this and other important information is available by calling 866.909.WISE (9473) or by visiting [wisdomtree.com](http://wisdomtree.com). Please read the prospectus carefully before you invest.**

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