

# Advantages of 1940 Act Funds

Exchange-traded funds, or ETFs, come in every style and asset class in the investment spectrum. In fact, since funds exist for almost every major index, asset class and special industry or asset, ETFs can be used to meet nearly any investment objective.

## LONG-TERM GROWTH

The very first ETF was designed to track the performance of the S&P 500 in order to provide investors with long-term growth potential. Today, investors have equity options that range from broad global-market ETFs with hundreds or thousands of securities to more concentrated domestic or international ETFs that focus on a sector like utilities or a specialty asset like gold. Some alternative ETFs are even designed to provide investors with performance potential in any market.

## CAPITAL PRESERVATION/INFLATION PROTECTION

ETFs can be a useful tool for investors looking for capital preservation as well. Not only are there many money market<sup>4</sup>, Treasury<sup>5</sup> and short-term fixed income ETFs, but there are also many other options designed to help you preserve the value of your capital. Alternative and other specialty ETFs that invest in gold, other commodities, currencies, real assets or real estate may help you keep up with—or even outpace—inflation.

## GENERATING INCOME

Income can play important roles, from providing your monthly funds to offering downside protection to your portfolio and more. A wide range of domestic and international fixed income options are available, as well as many equity, specialty, REIT<sup>2</sup> and other ETFs designed to generate income. In fact, some ETFs use advanced strategies like buying and writing options<sup>3</sup> to help investors generate income.

## LOWER VOLATILITY/DOWNSIDE PROTECTION<sup>6</sup>

Volatility<sup>7</sup> may be the most critical factor in how much portfolios are worth over time. Dividend-based ETFs may offer protection against volatility as the dividends help boost returns during bear markets. Treasury and fixed income ETFs may also help lower portfolio volatility. Additionally, alternative assets have been proven to deliver lower volatility than equities while also providing performance potential during different market conditions.

<sup>1</sup> Alternative investment: An investment that is not one of the three traditional asset types (stocks, bonds and cash). Alternative investments typically include hedge funds, managed futures, real estate, commodities and derivatives contracts.

<sup>2</sup> Real estate investment trust (REIT): A company that owns, and in most cases operates, income-producing real estate. These securities are structured to reduce or eliminate corporate taxes and as such are required to distribute at least 90% of their taxable income to investors.

<sup>3</sup> Put or call option: Refers to an investment contract in which a fee is paid for the right to buy or sell shares at a future date.

<sup>4</sup> Money market: A market for highly liquid assets generally maturing in one year or less.

<sup>5</sup> Treasury: Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

<sup>6</sup> Downside protection: A broad investment concept referring to the potential mitigation of risk or negative return experiences.

<sup>7</sup> Volatility: A measure of the dispersion of actual returns around a particular average level.



## ABSOLUTE RETURNS IN ANY MARKET

As the need for more sophisticated strategies becomes more mainstream, a growing number of ETFs are rising to the challenge of offering investors the benefits of alternative investments. Striving to provide absolute return potential in any market, these ETFs can be used as core or complementary investments for most investors and can help generate income, provide downside protection, preserve spending power and much more.

## EFFECTIVE TAX LOSS HARVESTING STRATEGIES

Because of the way they are classified by the IRS, ETFs can be effective tools for tax loss harvesting, which involves using the losses in one investment to offset the gains in another for tax planning purposes. Because ETFs are not considered “substantially identical” to mutual funds<sup>8</sup>, they can be used to maintain investment exposure in a specific area of the market while still capturing losses for tax purposes.

## CONCLUSION

The wide range of existing ETFs can help investors achieve almost any goal:

- + If your portfolio is primarily mutual funds, ETFs can help you diversify by investment structure and management type as well as by asset class, country or investment strategy.
- + If your portfolio is primarily individual stocks and bonds, ETFs can offer instant diversification potential in a single trade.
- + ETFs can be used in nearly any slice of an asset allocation as they cover most countries, asset classes, currencies and commodities<sup>9</sup>.

As ETFs continue to evolve from simply mirroring existing indexes to taking more active approaches, every day new opportunities are being created to help you meet your goals in innovative ways.

<sup>8</sup> Mutual fund: An investment program funded by shareholders that trades in diversified holdings and is professionally managed.

<sup>9</sup> Commodity: A raw material or primary agricultural product that can be bought and sold.

S&P 500 Index: Market capitalization-weighted benchmark of 500 stocks selected by the Standard & Poor’s Index Committee, designed to represent the performance of the leading industries in the United States economy.

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