ETFs Are Evolving—Is Your Portfolio Strategy Keeping Up?

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Ryan Krystopowicz, CFA
Head of RIA Portfolio Solutions Distribution & Specialists

Lauren Pfendt
Senior Associate, Portfolio Solutions

Key Takeaways

- As of June 2025, the U.S. ETF market has surged past 4,000 listings, a 20% year-over-year increase, highlighting both the innovation and complexity financial advisors must navigate today.
- While ETFs now offer active, thematic and tax-efficient strategies, advisors must shift focus from merely selecting ETFs to optimizing implementation, aligned with portfolio goals.
- Advisors transitioning from mutual funds to ETFs can maintain their core investment philosophies while reducing costs and improving operational efficiency through WisdomTree's portfolio consultations.

In a recent newsletter, we explored the explosive growth of ETFs and the implications for portfolio construction. In this follow-up blog post, Lauren and I wanted to take that conversation a step further—diving deeper into how advisors can navigate the ever-expanding ETF universe while staying true to their investment philosophy.

Let's start with the landscape: as of June 2025, there are now over 4,000 ETFs listed in the U.S., a 20% increase in just the past year.1 That kind of growth is a testament to the continued innovation in the space, but it also brings complexity. For financial advisors, the challenge is no longer about finding ETFs, it's about identifying the right ones that align with their strategy, deliver operational efficiency and ultimately enhance client outcomes.

The ETF Evolution

It wasn't long ago that ETFs were viewed primarily as passive tools for broad beta exposure. But the ETF structure has matured considerably. Today's ETF menu includes active strategies, precision-based sector tilts, thematic exposures and even mutual fund conversions—many of which are designed to deliver better tax efficiency, greater flexibility and improved cost structures.

Let's talk about that last one: cost.

- **Lower average expense ratios—0.16% for ETFs compared to 0.44% for mutual funds**.2 And those differences can really add up over time. Higher fee investments, even when performance is similar, can meaningfully erode long-term portfolio value, especially when compounded year after year as you can see below.



Source: https://weabenefits.com/resource/fees/ Illustration assumes an annual contribution of $5,000 and an annual rate of return of 7% over a period of 30 years. This is for illustrative purposes only and is not indicative of any investment.

Of course, cost is only part of the equation. ETFs also seek to offer:

- More consistent tax efficiency—due to their unique in-kind creation and redemption process.
- Greater transparency and intraday liquidity—crucial features for advisors running model portfolios or managing tax-aware rebalancing strategies across platforms.

These advantages aren't new observations; we've been talking about the structural inefficiencies of mutual funds for years. But what is perhaps more interesting is that we're seeing these benefits in practice, every day.

From Legacy to Modern: A Case in Point

We recently worked with an advisor managing a well-constructed global equity model built entirely with mutual funds. While the strategy itself hadn't changed, the friction around execution had started to mount:

capital gains distributions, higher operational costs and increasing difficulty rebalancing across custodians. The advisor sensed their portfolio implementation was no longer aligned with their original intent.

Through our consultation process, we conducted sleeve-level analysis and mapped legacy holdings to ETF-based allocations, preserving the integrity of the advisor's investment philosophy while optimizing for cost and efficiency. In many instances, this process has led to reduced average expense ratios at the fund level, enabling more cost-effective implementation without materially altering portfolio intent.

The real win? The advisor didn't lose their voice in the process. This wasn't about replacing a philosophy, it was about enhancing how that philosophy was delivered.

Navigating with Confidence

It's easy to feel overwhelmed by the sheer volume of products out there. But you don't have to go it alone.

WisdomTree's portfolio consultation service was built specifically for moments like this. Whether you're looking to modernize a legacy model, assess tax implications or simply pressure-test your current approach, we can help translate your investment beliefs into customized ETF portfolios—aligned to your goals, and designed for today's realities.

What Happens Next

Your investment strategy matters. But in today's environment, how you implement it is just as critical. Clients are more informed, more fee-conscious and more focused on long-term outcomes than ever before.

If you're evaluating whether your current tools still serve your strategy, let's talk. Sometimes the most powerful change isn't in what you believe—it's in how you bring it to life.

1 Tidal Financial Group. "ETF Industry KPIs." *Tidal Financial Group*, 23 June 2025, https://tidalfinancial-group.com/etf-industry-kpis/.
2 Calculated by Bank of America, cited by the *Financial Times* article *"US Investors Have Saved $250bn by Investing in ETFs, Says BofA."*

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