ETF 101

STRIVE

Since the first Exchange-Traded Fund (ETF) was launched in 1990, they have grown to become one of the most popular investment vehicles for both individual and institutional investors. Over the last decade, ETFs experienced a relative increase in assets that was 5.5 times greater than mutual funds, including $2 trillion in ETF inflows versus $1 trillion in negative flows for mutual funds and stocks since the start of 2019.

This piece aims to provide you with a better understanding of ETFs, their benefits, trading best practices, and more, so that you can make the most informed and confident decision when adding them to your portfolio.

WHAT IS AN ETF?

An ETF is a basket of securities that operates similarly to a mutual fund. The basket can vary across asset classes, including equity, fixed income, and commodities products. It can also target specific sectors or regions across the global marketplace. There are even single-stock ETFs.

One key difference between ETFs and mutual funds is that ETFs can be traded whenever the market is open as opposed to the end of each trading day.

However, while ETFs can trade throughout the day like stocks, trading volume is not a true reflection of the fund's liquidity. Instead, a true measure of liquidity is determined by the liquidity of the underlying securities in the fund. Shares outstanding is flexible and can be increased or decrease throughout the day through the creation/redemption process.

FIVE BENEFITS OF ETFS VS MUTUAL FUNDS

1 **Buy and Sell Intraday**
ETFs can be purchased intraday instead of the end of each trading day, providing additional control over how and when you trade.

2 **Tax Advantages**
Thanks to their structure, ETFs are considered some of the most tax-efficient investment vehicles available to investors today. The underlying mechanics, such as creations and redemptions, generally result in daily operations that generate relatively few taxable events. This, in turn, can translate into lower taxes for investors.

3 **Lower Fees**
ETFs generally charge lower fees and are always "no-load," meaning they do not charge a commission.

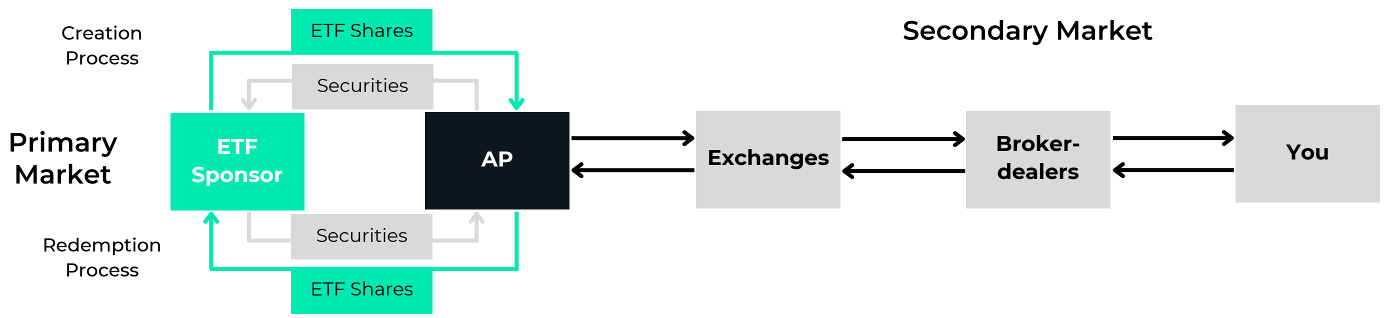
4 **No Minimum Investment**
Whereas many mutual funds require a minimum investment, there is generally no minimum purchase amount for ETFs.

5 **Easier Allocation & Portfolio Management**
Mutual funds have various share classes and fees based on investment size. ETFs generally have one share class and fee, allowing for easier comparison and selection.

THE CREATION AND REDEMPTION PROCESS

The creation and redemption process occurs in the Primary Market between the Authorized Participant (AP) – typically a large bank or financial institution such as Bank of America, Goldman Sachs, and JP Morgan – and an ETF Sponsor.

The shares issued in the primary market supply market makers in the secondary market. Market makers help ensure ETFs trade in close range to the Net Asset Value (NAV) of the ETF. The secondary market is accessed by investors via brokerage accounts or Financial Advisors.



ETF TRADING BEST PRACTICES

USE LIMIT ORDERS

As for any security that trades intraday, it is generally advisable to place a limit order. While market orders will often fill at prices substantially different than the current quotes, limit orders will ensure you only pay or sell at the price you designate.

AVOID PLACING TRADES AT THE OPEN

While Strive's ETFs have moved to the NYSE floor, a premium service that improves execution, it can take several minutes after market open for Market NAV to match the Fund NAV. As a result, upon market open, we recommend waiting for a short time before placing your order.

AVOID PLACING TRADES AT/NEAR THE MARKET CLOSE

If you plan to place an order at or very near the market close, we highly advise utilizing limit orders and/or contacting your trade desk, to ensure best execution.

ETF investments involve risk. Principal loss is possible.

AN IMPORTANT AND OVERLOOKED CONSIDERATION

There can be significant benefits to adding ETFs to your portfolio. However, it is important to be aware that you are relinquishing shareholder voting power to the fund sponsor – many of whom use this power to advance the interests of groups other than shareholders.

That is why, in addition to weighing asset classes, target sectors, and expense ratios when determining which ETFs to purchase, it is crucial to consider the fund sponsor and the way they vote and engage with the shares they hold. At Strive, we live by a strict commitment to shareholder primacy and prioritize shareholders over other stakeholders. That is something many other fund sponsors cannot say.

Learn more about how we fulfill our fiduciary duty at strive.com/why-strive