

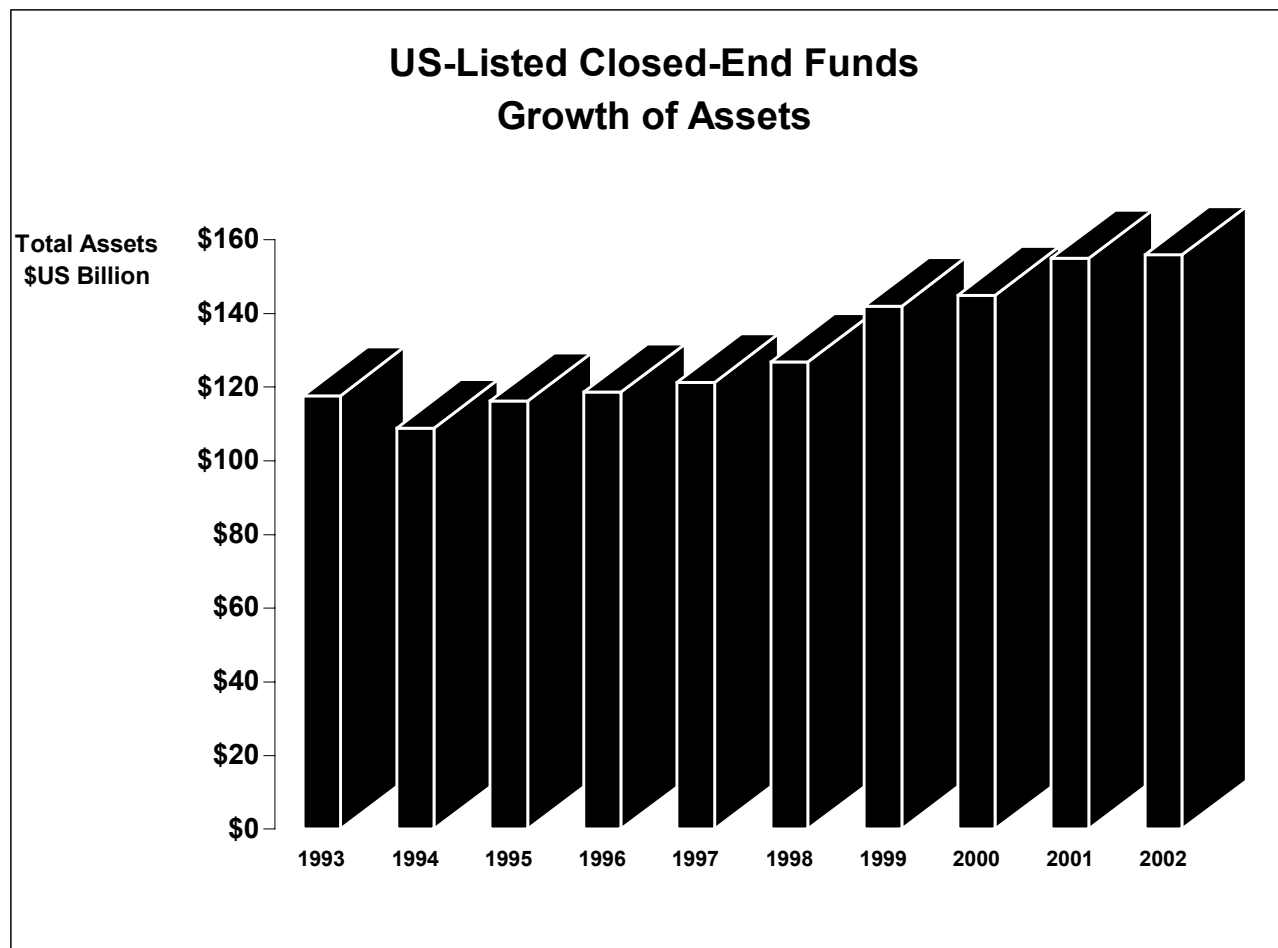
Exchange-Traded Funds

Advantages of Investing in Closed-End Funds and ETFs

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US-Listed Closed-End Fund Growth



- The US Closed-End Fund market has 487 funds with over \$155 billion in assets

Source: Morgan Stanley Research. *HOLDRS* are static baskets of stocks not registered under the Investment Company Act of 1940.

Closed-End Fund Advantages

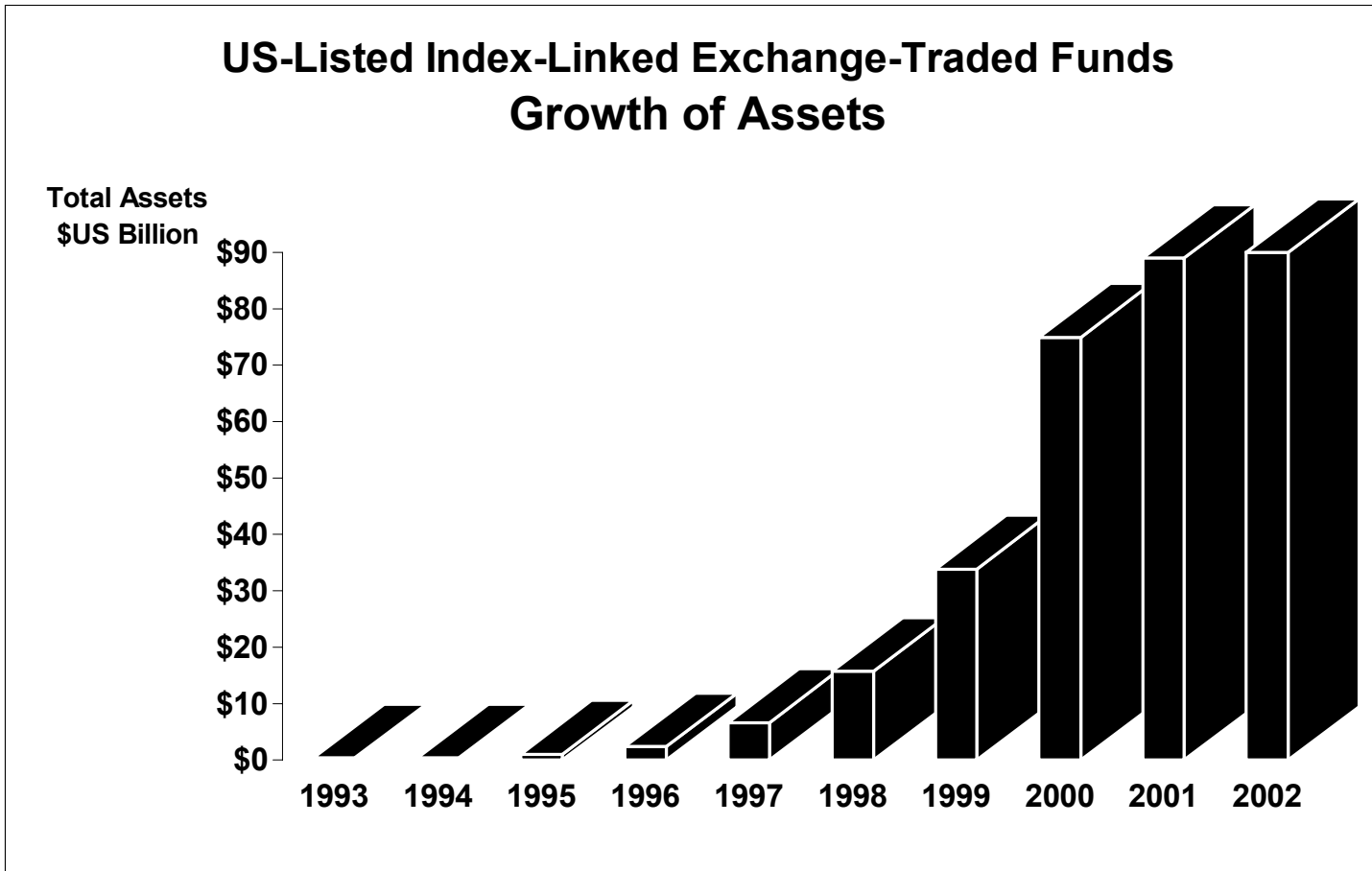
- **Professional management and diversification**
- **Traded as stocks on major exchanges (mainly NYSE)**
- **Stable capital pool allows more efficient portfolio management**
 - ✧ Managers not forced to buy/sell at inopportune times
 - ✧ Ability to invest in less liquid markets and securities
- **Leverage may enhance fixed-income fund yields**
- **Many trade at a discount to net asset value (NAV)**
 - ✧ Enhances yield and potential returns
- **Lower expenses than open-end funds may enhance returns**
- **Attractive distribution policies**
 - ✧ Many provide monthly or quarterly income

Closed-End Fund Disadvantages

- **Subject to brokerage fees and trading spreads**
- **Not effective for dollar cost averaging**
- **Premium/discount risks**
- **Risk of manager underperformance**
- **Illiquidity of certain funds**
- **Tax inefficiency of funds with high turnover**
- **Higher fees than ETFs and unleveraged open-end funds**

** Creations and redemptions are typically allowed only in "creation unit" sizes, generally 50,000 shares.*

US-Listed Index-Linked ETF Growth



- The US index-linked ETF market has 119 funds with over \$90 billion in assets

Source: Morgan Stanley Research. *HOLDERS* are static baskets of stocks not registered under the Investment Company Act of 1940.

Index-Linked ETFs Advantages

■ Diversification

- ✧ Exposure to an entire market, index, or sector in a single transaction
- ✧ Limits single stock event risk

■ Low fees and expenses

■ Tax efficient

- ✧ Passive management and redemption process minimizes capital gains distributions

■ Trades on major stock exchanges throughout the day (mainly AMEX)

■ Exempt from the “up-tick” rule*

- ✧ Enables investors to hedge portfolios or bet against entire markets or sectors

■ Premiums/Discounts virtually eliminated

- ✧ Tracks net asset value due to unique creation and redemption features**

■ Complete transparency - get what you buy with no style drift

■ Favored by institutional and retail investors

* Subject to certain exceptions, in the case of HOLDRS.

** Creations and redemptions are typically allowed only in “creation unit” sizes, generally 50,000 shares.

Index-Linked ETFs Disadvantages

- **Subject to brokerage fees and trading spreads**
- **Not effective for dollar cost averaging**
- **Forego opportunity to outperform benchmark indices**
- **Possible minor tracking error versus indices**
- **Regulatory issues related to research and marketing**

** Creations and redemptions are typically allowed only in "creation unit" sizes, generally 50,000 shares.*

Diversification Examples

Fund Name	Symbol	# of Stocks	% of Holdings	
			Top Stock	Top 10 Stocks
iShares Russell 2000 Index Fund *	IWM	1,917	0.4%	2.4 %
Standard & Poors MidCap 400 Depositary Receipts	MDY	400	1.2	8.7
iShares MSCI EAFE Index Fund *	EFA	788	2.9	13.4
iShares Russell 3000 Index Fund *	IWV	2,839	3.5	21.0
iShares Russell 1000 Value Index Fund *	IWD	665	5.1	23.1
Standard & Poors Depositary Receipts (S&P 500)	SPY	500	3.9	24.1
streetTRACKS MS High Tech Index Fund	MTK	35	3.4	32.5
Nasdaq-100 Index Tracking Stock	QQQ	100	12.0	43.2
iShares DJ US Consumer Cyclical Sector Index Fund	IYC	270	10.1	44.4
Financial Select Sector SPDR Fund	XLF	71	11.8	52.5

* Does not fully replicate index and does not own some smaller stocks

ETF Cost Comparisons vs. Open-End Mutual Funds

<u>Category</u>	<u>Range</u>	<u>Avg. Expense Ratio</u>
ETFs		
Major Market	9 – 25 bps	18 bps
Style (Growth & Value)	18 – 25 bps	23 bps
Sector	28 – 60 bps	47 bps
International	35 – 99 bps	79 bps
All ETFs*		42 bps
Traditional Mutual Funds		
Active Domestic		140 bps
Active International		194 bps
Passive Domestic		75 bps
Passive International		95 bps

Source: Lipper, Company Data. Expense Ratios as of March 21, 2002.

* The average expense ratio of all US-listed ETFs, excluding HOLDRS. The HOLDRS charge \$2 per quarter per 100 share lot, if covered by dividends.

Tax Efficiency

Capital Gains Distributions as a Percent of NAV*

	S&P 500 SPDR ETF (SPY)	Open-End S&P 500 Index Fund Avg.
1993	0.00	1.10
1994	0.00	1.35
1995	0.00	3.85
1996	0.12	2.10
1997	0.00	2.34
1998	0.00	1.67
1999	0.00	1.52
2000	0.00	2.58
2001	0.00	1.76
Average	0.00	2.03

* Year-end NAV

Source: Lipper

Clauses

•We remind investors that these investments are subject to market risk and will fluctuate in value. Readers can obtain a copy of the prospectus for these funds from Alps Mutual Fund Services for Nasdaq-100 Index and Select Sector SPDRs and SEI Investments Distribution Co for iShares. The prospectus contains more complete and important information about the ETFs and should be read carefully before investing.

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